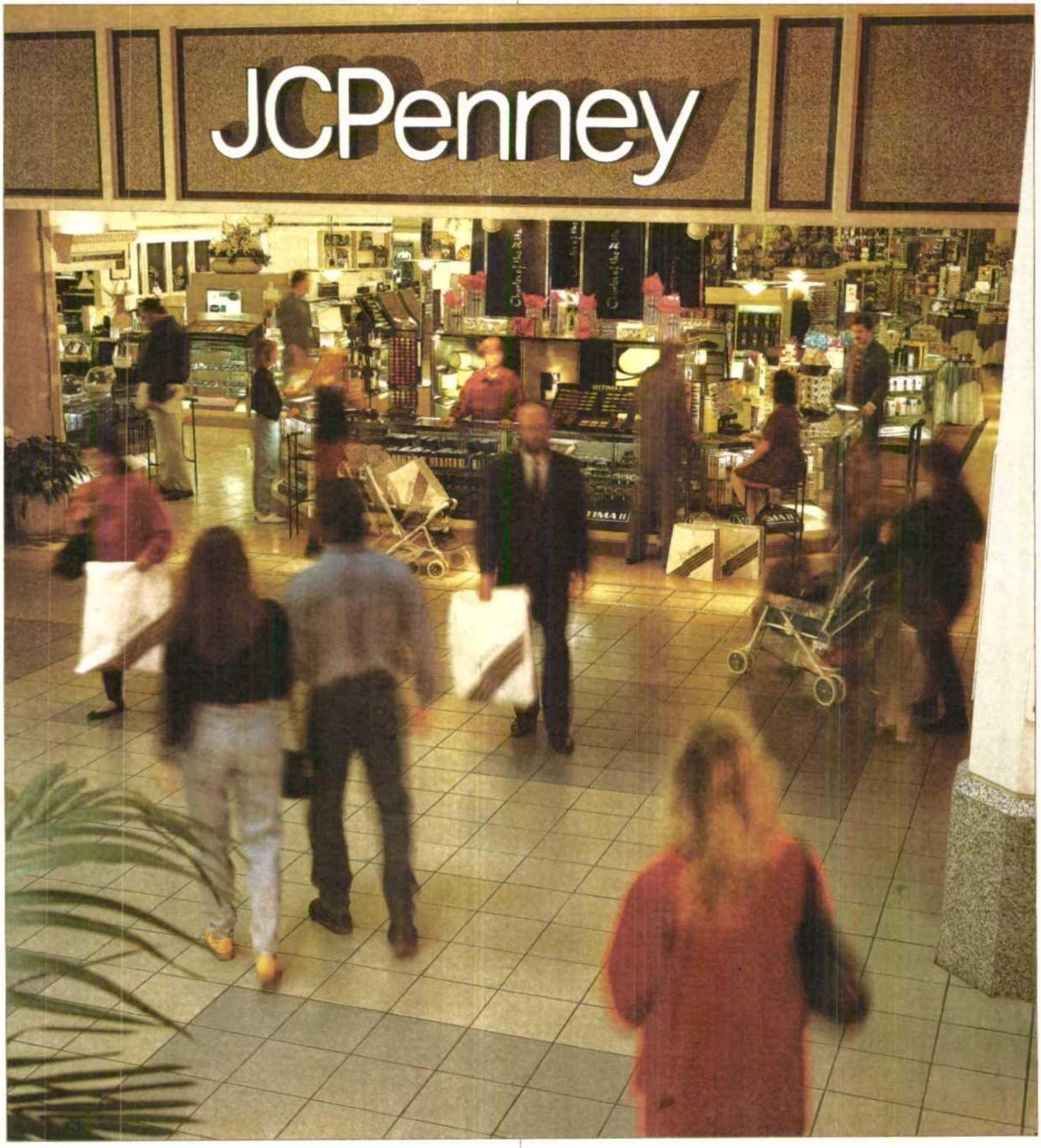
J.C. Penney Company, Inc.



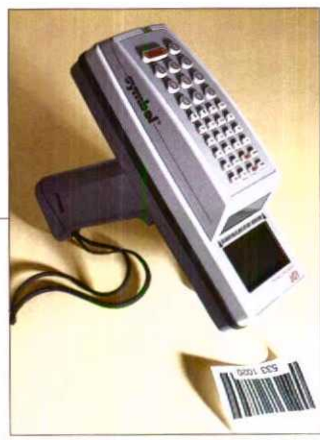
DEFINING THE FUTURE OF RETAILING

1994 ANNUAL REPORT

This is JCPenney

JCPenney is a major retailer, with department stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, jewelry, shoes, accessories, and home furnishings.

1994 Annual Report



COMPOUNDED ANNUAL GROWTH RATES

	Retail sales	Earnings per share
3 years	7.9%	26.5%
5 years	4.8%	6.2%
10 years	4.2%	10.8%

STOCK PRICE PERFORMANCE (Annualized return with dividends reinvested - calendar year basis)

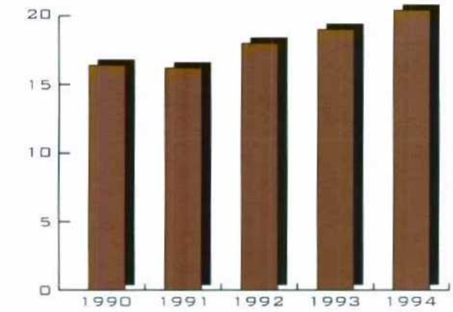
	JCPenney	S&P 500
3 years	+21%	+ 6%
5 years	+ 8%	+ 8%
10 years	+19%	+13%

FINANCIAL HIGHLIGHTS ($ in millions except per share data)

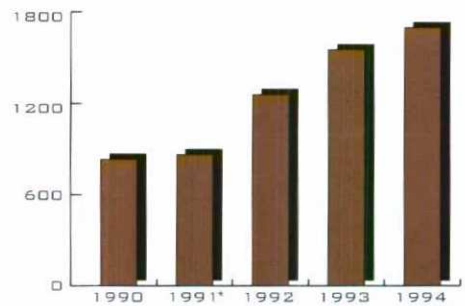
	1994	1993	1992
Total revenue	$21,082	$19,578	$18,515
Retail sales	$20,380	$18,983	$18,009
Comparative store sales[1] (per cent increase)	6.8	5.3	9.7
EBITDA[2]	$ 2,610	$ 2,430	$ 2,140
EBITDA per cent of total revenue	12.4	12.4	11.6
Net income	$ 1,057	$ 940	$ 777
Net income per share	$ 4.05	$ 3.53	$ 2.95
Return on stockholders' equity (%)	19.7	20.1	18.6

[1] Stores open at least a year.
[2] Earnings before interest, taxes, depreciation, and amortization as calculated on page 42.

RETAIL SALES ($ in billions)

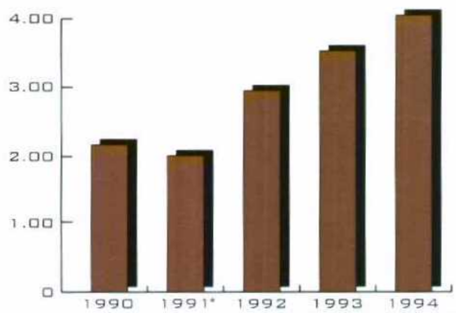


PRE-TAX INCOME ($ in millions)



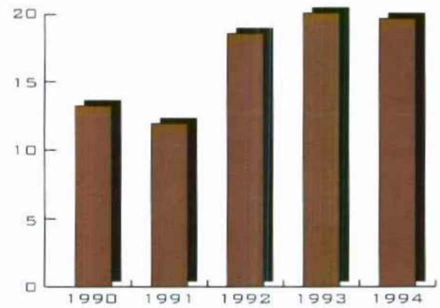
*1991 pre-tax income excludes the effect of nonrecurring items.

EARNINGS PER SHARE ($)

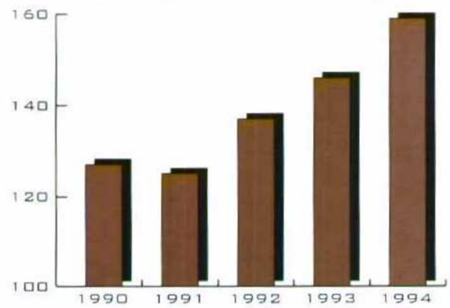


*1991 earnings per share exclude the effect of nonrecurring items and the cumulative effect of an accounting change

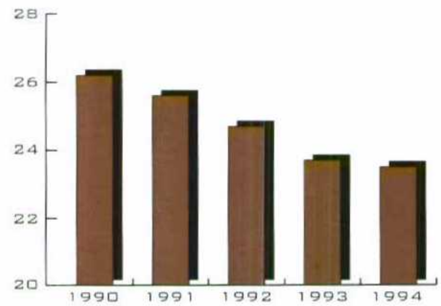
RETURN ON STOCKHOLDERS' EQUITY (%)



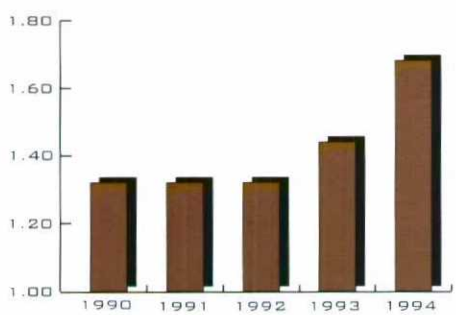
SALES PER GROSS SQUARE FOOT IN JCPENNEY STORES ($)



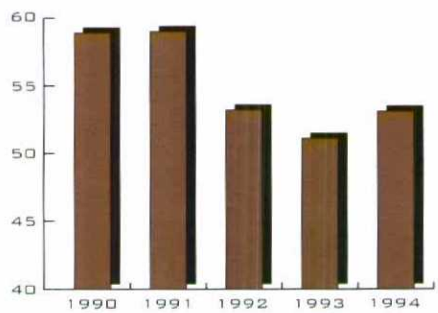
SG&A EXPENSES (% of sales)



DIVIDENDS PER SHARE ($)



DEBT TO CAPITAL (%)



To Our Stockholders,

For a third consecutive year, your Company enjoyed outstanding sales and profits. In 1994, retail sales rose 7.4 per cent to $20.4 billion, surpassing the $20 billion mark for the first time. Net income exceeded $1 billion, another first for JCPenney.

Total revenue for the year was $21.1 billion, a healthy 7.7 per cent increase over 1993. Once again, store productivity increased, rising to $159 per square foot from $146.

These results prompted your board of directors this month to increase the quarterly dividend by 14.3 per cent to 48 cents per share. The increase brings the indicated annual rate to $1.92.

In March 1994, we announced a 10-million-share common stock purchase program. We completed that stock purchase and began a second 10-million-share common stock purchase program in January 1995, underscoring our confidence in our future earnings growth and our commitment to superior long-term returns for our stockholders.

Earnings were good in spite of tough challenges. Warm fall weather forced markdowns in some areas, such as outerwear and sweaters. And the critical holiday selling season was again highly promotional and very competitive. Yet we remained among the leaders for the year in comparative store sales – the true measure of the strength and success of our commitment to fashion, quality, and value.

Our strategy of exceeding our customers' expectations for selection and service again paid real dividends. Our ever-increasing expertise in private-brand development continues to give us unique merchandise at superb values, which combines successfully with our assortment of highly desired national brands.

We back this menu of enticing consumer choices with unmatched global sourcing capabilities and a quality assurance operation that sets the standard for the industry. An aggressive nationwide marketing program further leverages our strengths. These critical foundations for the current and future success of your Company are explored in more detail on the following pages.

Our many triumphs in 1994 capture some of the excitement we feel about our performance. They encompass all four of our merchandise divisions as well as our catalog division.

- Our new computerized gift registry, already in 200 stores, is being rolled out to reach a national audience. Supported by a new catalog, the gift registry features fine china and crystal by the most renowned names in the industry. This interactive innovation launches us into the lucrative bridal market, which totaled some $32 billion in 1993.
- We built a formidable sales gain in luggage by introducing appealing private brand entries that give consumers what they want in luggage – at prices well below the competition.

We currently hold twice the market share of our nearest competitor in this merchandise area.

- Our Original Arizona Jean Company® brand continues to be one of the fastest growing private brands we have ever had. In 1994, it delivered huge sales gains in the men's, women's, and children's areas.
- Superior quality and fit in men's Stafford® Executive suits led to strong gains by the brand. Made by Hartmarx, one of the premier menswear houses, Stafford Executive suits offer the tailoring and fashion details of suits costing much more.
- Our Worthington® brand for career women continued to grow as we exploited new possibilities in what the fashion world calls "business casual" – a more relaxed, flexible approach to dressing in the workplace.
- We moved forward aggressively in cosmetics. The year saw strong growth in Ultima II, two key fragrance introductions from Chloe and Lagerfeld, strong performance by our new Bath & Body shops, and the launch of the Iman color and treatment collection.
- We reinforced our dominance in women's robes, sleepwear, and lingerie with a colorful introduction of the glamorous Wonder Bra and backed it with a similar product at a highly competitive price under our exclusive Adonna® brand.
- In children's, we brought our Original Arizona Jean Co. brand into small sizes under the Little Arizona™ label. The result: Sales exploded. The brand grew to a significant portion of our infant and toddler playwear sales in just six months.
- Our catalog division continued its impressive performance in 1994. Building on the unprecedented growth of its specialty books and the continuing strength of the fall/winter and spring/summer big books, catalog recorded the highest sales in its 31-year history.

Our efforts as merchants to deliver the best possible package to our customers were reflected in the media. In a survey sponsored by "Women's Wear Daily," shoppers rated JCPenney the No. 1 "best store" for women's apparel. Underscoring what our sales results have been saying, customers ranked JCPenney first in sportswear and casualwear, activewear and bodywear, career clothing, suits and dresses, and swimwear. The Company also captured Menswear Retailer of the Year from "MR," the magazine of menswear retailing. The magazine cited the strength of our private brands and our quality assurance inspectors, who are respected and valued by suppliers and competitors alike. Additionally, children's wear trade journal "Earnshaw's" profiled our children's and family shoes division, which had the best back-to-school season in its history.

Performances of other businesses also continue to be strong. Once again, Thrift Drug's sales rose. And in February 1995, Kerr Drug, a 97-store chain, was acquired, further broadening our subsidiary's marketing base. Financial Services, including JCPenney Insurance and JCPenney

National Bank, also saw substantial growth in 1994.

We stepped beyond our borders this month with the opening of a JCPenney store in Santiago, Chile. In the future, we expect to open two stores in Mexico. We also continue to explore opportunities for marketing our private brands internationally, through shop collections and other business strategies.

In 1994, we moved to further strengthen our executive team, which will enable the Company to maintain its momentum, enhance performance, and continue to build sales and profits. James E. Oesterreicher, formerly president of JCPenney stores and catalog, was elected vice chairman of the board and chief executive officer. He is joined by Barger Tygart, who was elected president and chief operating officer. Both executives have joined me on the board of directors.

Gale Duff-Bloom has been elected senior executive vice president and director of personnel and company communications. John Cody has been elected president of JCPenney stores. Tom Hutchens has been elected president of merchandising worldwide.

The election of this powerful group of career executives is indicative of the exceptional strength and depth of our management team. Thanks to the retail experience, dedication, and skill of our Company's managers and the professionalism of our store managers, JCPenney is well-positioned for this decade ... and poised for the coming century. Pictured on the following pages are the Company leaders who will help define the future of retailing.

At JCPenney, we draw strength from our traditions and past even as we look to the future. Yet we remain clearly focused on the opportunities the future holds ... and the opportunities are many.

The year ahead unquestionably contains challenges. We will continue our aggressive cost management and our determined effort to fill our stores with true value – quality and fashion at an exceptional price. We know the results will be still another outstanding year to be shared by customers, associates, suppliers, and investors alike.

Warmest regards,

W.R. Howell
Chairman of the Board
March 27, 1995

William R. Howell (left), chairman of the board, began his career in 1958 as a trainee in a Tulsa, Okla., store. • W. Barger Tygart (center), president and chief operating officer, started in 1960 as a trainee in a Little Rock, Ark., store. • James E. Oesterreicher (right), vice chairman of the board and chief executive officer, started in 1964 as a trainee in a Lansing, Mich., store.

WE HAVE LEARNED TO EMBRACE AND THRIVE ON CHANGE.

J.C. Penney Company, Inc.

DEFINING THE FUTURE OF RETAILING

1994 ANNUAL REPORT

At JCPenney, the future is now. And we are dedicated to shaping it.

We have learned to embrace and thrive on change. And we have invested heavily in the people and resources necessary to succeed in the highly competitive retail landscape. Our goal is simple: to exceed our customers' expectations for value, selection, and service. With our commitment and success in private-brand development, quality assurance, technology, marketing and communications, and a powerful synergy between a vast array of services, we set the operational standards against which all department stores can be measured. Our record speaks for itself ... and we take great pride in what it says about JCPenney.

These are the standards customers expect, investors demand, and competitors emulate ... both now and in the next century. These are our strategies that are defining the future of retailing.

More than ever we are focused on customer service in the broadest possible sense. And we are confident we are not just doing it right, we are doing it better. Consumer surveys confirm this. In a poll commissioned by "Women's Wear Daily," shoppers rated JCPenney the No. 1 "best store" for women's apparel. And "MR," the magazine of menswear retailing, named JCPenney Menswear Retailer of the Year. More importantly, our consistent sales growth tells us we are in tune with our customers' needs. Increasingly, they are voting with their dollars for JCPenney's unique mix of fashion, quality, price, and service.

Our merchandise development operations are unsurpassed in the retail industry. Backed by state-of-the-art communications technology, our teams bring the right selection of the world's goods to our customers – at the best possible price.

Our private brands are unmatched for value. Many of these exclusive labels have become household names, and they give JCPenney true distinction in a look-alike marketplace. National brands complete our merchandise menu, offering customers a compelling range of choices. That, combined with the largest catalog operation in the country, creates a synergy unique in the retail industry.

Ongoing store modernization is delivering attractive, more productive stores that are easier for customers to shop. Our real estate – 113 million square feet of prime space – includes the best malls in the United States. A coast-to-coast advertising program combining print, television, and direct mail further secures our position as the national department store.

We are not only meeting our target customers' needs in the context of today's highly competitive retail marketplace, we are doing so with ever-increasing efficiency and effectiveness. Throughout the Company, our managers are attacking cost structure, and we are extracting cost from the merchandise process while maintaining or improving quality. Aided by our investments in technology, we have steadily lowered our cost ratios while increasing our sales productivity.

Our other successful businesses, Thrift Drug, JCPenney Insurance, and JCPenney National Bank, are among the leaders in their own arenas.

We have honed our merchandising strategies, streamlined the flow of goods into stores, and managed inventories. We have sharpened our marketing, intensified our quality control, and expanded into new markets in the United States and around the world.

These are the strategies behind our success today ... and they are the foundation for our success tomorrow. We are ready for what the future holds.

EVERY EFFORT BEGINS WITH OUR CUSTOMERS AND THEIR NEEDS, NOW AND IN THE FUTURE.

Woven into virtually every garment at JCPenney is an intricate infrastructure of searching, creating, and testing. At JCPenney, we bring worldwide resources, state-of-the-art technology, and unceasing vigilance to the business of having the right merchandise at the right price at the right time.

Fully a year before a garment hits the stores, buyers, fashion coordinators, and brand development managers begin researching fashion direction. They explore themes, trends, and color direction with countless sources. They review piece goods. They cover fashion markets the world over. They conduct market research, shop competitors, and explore ideas with our own store managers. They compare, combine, and evaluate.

With that expertise, they build the assortment of private and national brands that provides JCPenney's unique combination of fashion, quality, and value for the consumer. It is a merchandise offering like no other department store's. It differentiates us from other retailers and has made us a leader in an increasingly competitive marketplace.

Store management across the country sees those assortments via satellite broadcasts from the Home Office in Plano, Texas, on the Company's direct broadcast system (DBS). This state-of-the-art television network speeds critical communications to the field, reducing the buying process to days, even hours. This innovation enables buyers to make timely commitments based on store input. And it lets stores precisely tailor assortments to their individual markets.

For today's value-driven consumer, merchandise must not only look good, it must also perform ... and JCPenney sets the standard for quality control in the retail industry. Our 50,000-square-foot, state-of-the-art Merchandise Testing Center in Carrollton, Texas, is unparalleled in the industry.

This laboratory is staffed with experts who perform some 47,000 tests annually, checking everything from fabric and seam strength to colorfastness. Detailed analysis is performed on our key private brands comparing them against national competition. This COMPARE process provides the objective guidance needed to ensure that our private labels offer the best values in the marketplace. Our field inspectors visit manufacturing facilities around the world to check production, piece goods, and compliance with our stringent standards. Using laptop computers to communicate reports instantly, these inspectors conduct more than 70,000 inspections annually. Our factory evaluators also span the globe rating factories according to their capabilities, allowing buyers to use the valuable information when placing orders.

All these quality assurance efforts are done for one singular purpose: We want our customers to remember the quality of our merchandise long after they have forgotten the price.

Through our global sourcing network, we bring the best values from world markets to customers at JCPenney stores. Representative offices in 15 countries and agents in additional

Thomas D. Hutchens (seated), president of merchandising worldwide, began his career in 1961 as a trainee in a Jacksonville, Fla., store. (From left) J. Raymond Pierce, president of the men's division, started in 1965 as a trainee in a Cincinnati, Ohio, store. • Anton C. Haake, vice president and director of quality assurance, began as a trainee in 1959 in St. Charles, Mo. • N. Tice Siegel, Jr., president of the children's and family shoes division, joined in 1962 as a buyer trainee. • Marilee J. Cumming, president of the home and leisure division, began in 1975 as a buyer trainee. • Kenneth T. Russo, vice president and director of international sourcing, joined in 1963 as an assistant buyer. • James L. Hailey, president of the women's division, started in 1959 as a trainee in an Austin, Texas, store.

QUALITY MERCHANDISE

PRIVATE BRANDS GIVE JCPENNEY TRUE QUALITY AND DISTINCTION IN A LOOK-ALIKE MARKETPLACE.

foreign countries connect our merchandising teams with the best that global markets have to offer. We source from dozens of countries and do business with more than 6,000 domestic and direct import suppliers.

Cutting-edge technology accelerates and enhances the entire complex sourcing process. Still Imaging Systems transmit pictures of garments. Sophisticated electronic systems generate contracts and letters of credit and track the status of overseas orders virtually every step of the way. This reduces the time from conception to production to delivery – a critical component for continued success.

JCPenney private brands set the Company apart from other retailers. Our brand managers work with buyers, designers, and quality assurance specialists to develop fashion concepts and merchandise specifications. Our total control of the development process enables us to produce consumer-focused assortments that are better coordinated for style, color, and size ... at a higher level of quality and a lower cost.

We refine our efforts continually, intensifying each brand's fashion and value while introducing new products and categories. The result is coordination that makes it easier for busy, value-conscious customers to build a fashionable, high-quality wardrobe.

Sales tells us clearly that the customer recognizes and responds to our efforts.

- The JCPenney Worthington® line, the largest private career sportswear label in America, is in the top five of all career brands, far outdistancing many of the most prominent national names.
- Our Original Arizona Jean Company® brand has boomed in just four short years to become one of the leading jeans-wear brands in the country.
- Our Classic Traditions® label, a bedding, bath, window coverings, and home accessories collection, is the No. 1 brand in volume in the entire home furnishings industry.

These powerful private brands combine with a carefully chosen selection of national brands to provide today's consumer with unparalleled selection in both stores and catalog. It is a unique combination that truly distinguishes JCPenney from other retailers.

THE RIGHT SPACE

JCPenney's real estate position in the United States is truly enviable. We have approximately 113 million square feet of store space, including the best malls in the nation. In 1994, we added 29 new stores, some of which replaced older and outdated units.

To provide the speed and convenience that are primary concerns for today's customers, we are creating a world of shopping ease in our new and modernized stores. Continually scrutinizing the positioning of merchandise, we strive to make shopping easier from the customer's point of view.

New, bright store interiors welcome shoppers. They provide for less containment and wider circulation, allowing customers to find merchandise more easily and make buying decisions more quickly. Wider aisles, wider mall entrances,

(From right) John T. Cody, Jr., president of JCPenney stores, began his career in 1964 as a trainee in an Indianapolis, Ind., store. • Gary L. Davis, president of the northwestern region, started as a trainee in 1964 in a Marietta, Ohio, store. • Thomas B. Ashmore, president of the northeastern region, joined in 1962 as a sales associate in a Grand Forks, North Dakota, store. • Edward T. Howard, president of the southwestern region, began in 1965 as a trainee in a Huntington, West Va., store. • R.H. (Ted) Seaman, president of the southeastern region, began in 1954 as a trainee in the Ashland, Ky., store.

CONSISTENT SALES GROWTH TELLS US WE ARE IN TUNE WITH OUR CUSTOMERS' NEEDS.

open escalator wells, and skylights create an appealing and inviting shopping environment. Color palettes are now warmer, and we have introduced illuminated, multiple-stepped curtain walls with coverings in warm-toned, subtle patterns and rich wood trims to enhance the merchandise settings.

JCPenney Styling Salon offers a unique opportunity for the time-pressed consumer to complete her fashion look. Operating in our retail stores in some 900 locations in the United States and Puerto Rico, our salons comprise the largest hairstyling operation in the country in sales volume.

PUTTING THE CUSTOMER BACK INTO CUSTOMER SERVICE

For many of today's consumers, shopping must be squeezed into busy schedules that include demanding full-time jobs as well as family responsibilities.

Enhanced point-of-sale systems help make the customer's shopping experience seamless and productive. Selling associates can now easily verify credit card numbers and credit lines for customers who have forgotten their credit cards. They can open new credit accounts directly at the cash register. With new software, associates can even place catalog orders for customers at the register without a separate phone call to the catalog telemarketing center.

Smooth, swift transactions are just the beginning. To truly serve our customers, we must have not only the right merchandise at the right time, but the right color and the right style – every day. At JCPenney, we move ever closer to that important goal as an industry leader in strategic planning, technology, and systems refinements.

Sophisticated bar-code scanners capture merchandise data at point of sale, providing fast feedback on what merchandise is moving. That mass of critical data becomes a working tool for buyers and store management through a state-of-the-art system called Infovision. Easy to understand and use, Infovision allows users to track sales performance in regions, districts, and stores across the country, right down to individual lines of merchandise.

With our quick-response partnerships with mills and suppliers, we are moving merchandise through the pipeline to the consumer faster than ever before, while reducing inventory costs along the way. Through near instantaneous information sharing on sales, orders, and receipts through electronic data interchange (EDI), our suppliers know what is selling as soon as our managers do. This improves response time, as well as increasing our ability to manage inventories.

Our Reorder Point Alert 4 system (RPA4) fine-tunes the process still further. Using a formula based on an item's annual sales estimate and replenishment time, RPA4 automatically reorders merchandise, providing stores with an even flow of goods, right down to specific sizes and colors.

As a result of these technological advances, stores have been able to consistently meet our customers' needs – not only with the right merchandise but also with the right sizes and colors.

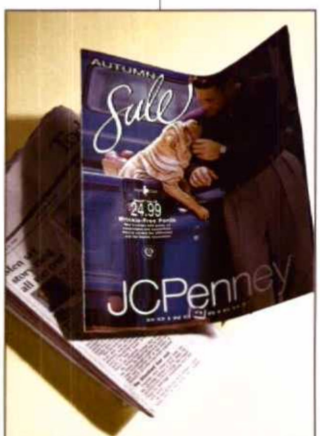
William E. McCarthy (seated), president of catalog and distribution, began his career in 1961 as a trainee in a Macon, Ga., store. (From left) Peter G. Fenlon, divisional vice president and director of catalog operations, started in 1965 as an order filling and packing manager in Milwaukee, Wis. • J. Thomas Arthur, divisional vice president and director of catalog merchandising, joined in 1963 as a trainee in a Columbus, Ga., store. • Michael Todres, vice president and director of distribution and non-resale purchasing, started in 1966 as an industrial engineer. • William E. Nolta, divisional vice president and director of catalog advertising and publications, began in 1959 as a trainee in a Denver, Colo., store.

JCPENNEY CATALOG SETS THE STANDARD AGAINST WHICH ALL CATALOGS ARE MEASURED.

A GIANT STORE BEYOND THE STORE

Backing more than 1,200 stores with the largest sales-volume catalog operation in the country creates a synergy unique in the retail industry. It's a relationship consumers clearly appreciate: One-third of the United States shops the JCPenney Catalog.

The catalog supports stores with a vast array of sizes and color selections. For example, a typical full-line store carries our best-selling Supreme draperies in 12 sizes and eight colors, or about 100 stock-keeping units, compared to over 1,200 SKUs in Supreme in catalog. In addition, catalog supplements the stores by offering lines of merchandise that stores don't carry – such as toys, fitness equipment, and telephones. The catalog division's swift two- to three-day delivery and toll-free 24-hour shopping convenience are in tune with today's consumer ... and set the industry standard.



Technology keeps this vast enterprise moving smoothly and cost-effectively. At six enormous, strategically located distribution centers, computers and laser bar-code scanners manage inventory information and direct the flow of merchandise. Integrated on-line systems at 14 telephone centers put merchandise information at the fingertips of customer service representatives, who handle 80 million incoming calls a year. A powerful new electronic publishing system saves money as it accelerates production of catalog pages.

In 1995, this division will publish more than 70 specialty catalogs. These books – "Bridal," "Simply for Sports," and "Big & Tall Men's" to name just a few – serve the needs of important niche markets. The success of this strategy, in turn, also expands the catalog division's customer base.

Among the most exciting of our new catalogs is "The Gift Registry." It is a prime example of the synergy between a national department store and a major catalog. The catalog extends the in-store gift assortment with fine china from Lennox and Noritake and crystal stemware from Mikasa, aimed at brides-to-be, and infants' merchandise, such as Basset baby furniture, targeted to expectant families.

Gift-givers can call 1-800-JCP-GIFT to get a listing of a bride's or baby's registered items, order the gift by phone, and have it gift-wrapped and delivered. As each purchase is made, the system automatically deducts the item from the gift registry.

Catalog continues to explore electronic retailing formats. The division intends to participate in several previously announced interactive television shopping trials in major markets across the country. Active participation continues in shopping via personal computer, most recently including the Internet and CD-ROM. Experience gained from these trials, combined with our expertise in catalog operations, positions us for success as this new medium gains acceptance by consumers.

Gale Duff-Bloom (front), senior executive vice president and director of personnel and company communications, began her career in 1969 as a trainee in a Columbus, Ohio, store. (First row, from left) Glenn B. Harrison, manager of administrative services, joined in 1964 as a trainee in a Walla Walla, Wash., store. • Robin M. Caldwell, director of community relations, started in 1974 as a trainee in a Norfolk, Va., store. • Wynfred C. Watkins, vice president and director of investor relations, began in 1967 as a trainee in a Toledo, Ohio, store. (Back row) Russell H. Longyear, vice president and director of company communications, joined in 1961 as a senior research analyst. • Jay F. Hundley, vice president and director of personnel, started in 1965 as an organizational development analyst. • Cathy J. Mills, director of public relations and special events, began in 1972 as a personnel associate in a Memphis, Tenn., store.

A DIVERSE AND TALENTED WORKFORCE SHARPENS OUR COMPETITIVE EDGE.

Building momentum with marketing

Our aggressive nationwide marketing program continues to drive business and strengthen our image. Print advertising has increased in quantity and in distribution, with newspaper inserts now reaching more than half of U.S. households. We have more than tripled our total number of household impressions since 1991.

Increased national television advertising has also increased consumer awareness of JCPenney. Intensified television advertising has enhanced consumers' perception of our private brands and established JCPenney as the exclusive place to buy them.

Nontraditional marketing efforts tie JCPenney to women's interests and community concerns. We sponsor the JCPenney Golf Classic, which benefits charities in Florida, and the JCPenney LPGA Skins Game, which raises money for Easter Seals. This year we were the national presenting sponsor of the Race for the Cure for the Susan G. Komen Breast Cancer Foundation. The races drew 150,000 walkers and runners to 46 events in 28 states and the District of Columbia, with proceeds supporting research and education programs and mammography screening for medically underserved women.

Our participation in women's conferences, where we bring fashion shows and seminars to more than a million women, reminds our primary customer that we share her concerns and understand her priorities.

Key customer connections

To strengthen our relationship with our key customers, JCPenney credit cardholders, we have added new benefits this year.

The JCPenney Privilege® card, introduced in March 1994 for the "best of the best" of our credit card customers, provides special offers, special services, and early notification of sale events. Our cardholder anniversary event provides a progressively larger discount shopping spree based on the number of years the customer has had his or her account.

Nor do we neglect our primary cardholder objective: providing outstanding customer service. New technologies in video imaging, mail inserting, and high-speed printing have substantially improved the quality of our credit processing services. A new, user-friendly, personal computer-based customer service support system is improving the productivity of our customer service representatives.

These and other technologies have had an additional benefit: Operating expenses have declined as a per cent to sales through the 1990s.

More than a department store

Successful businesses outside retailing add to JCPenney's fiscal strength.

Thrift Drug, now the 10th largest drugstore chain in the country with the acquisition of Kerr Drug, continues to generate consistent sales gains. Also during 1994, Thrift acquired the institutional pharmacy business of Greenwood Pharmacy, Inc. and developed a new managed-care pharmaceutical network. An innovator and leader in technology, Thrift expects escalating returns on its investment in these systems and its new and acquired retail stores through the end of the decade.

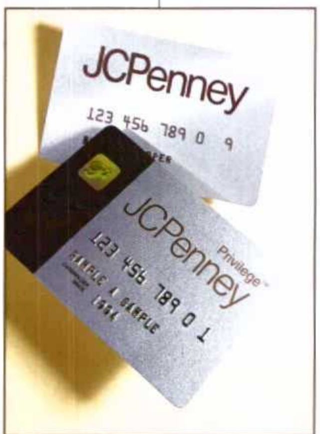
Robert E. Northam (front), executive vice president and chief financial officer, began his career in 1975 as controller. (Back row, from left) Donald A. McKay, vice president and controller, started in 1972 as a financial planning analyst. • Leo A. Gispanski, vice president and treasurer, joined in 1964 as a section supervisor in controller's in Pittsburgh, Pa. • Delmer R. Threadgill, vice president and director of taxes, began in 1988 in Dallas as manager, tax audits and compliance.

OUR STRONG FINANCIAL POSITION

REMAINS A COMPETITIVE ADVANTAGE.

JCPenney Insurance markets life, accident and health, and credit insurance products to consumers in the United States and Canada and continues to explore new compatible businesses. Since 1989, revenue has enjoyed sustained, profitable growth, increasing pre-tax income by an average of more than 30% annually. Its success has gained industry recognition: JCPenney Life was named Direct Marketing Life Insurance Company of the Year for 1993 by the Direct Marketing Insurance Council of the Direct Marketing Association. With its advanced direct-marketing techniques and world-class customer service, JCPenney Insurance is ideally positioned to continue its profitable growth.

JCPenney National Bank, a 106-year-old bank purchased by the Company in 1983, offers Visa, MasterCard, and certificates of deposit. Pre-tax income remains strong. Profit margins as a per cent of credit card receivables are among the highest in the industry. The JCPenney Card Bank N.A., which opened in 1993, provides another flexible way to extend credit. In particular, it allows us to standardize our credit practices throughout the nation.



MANAGEMENT DEPTH AND COMMITMENT

Behind every organization, system, or business process are the people who make it happen. At JCPenney, our associates are our most compelling competitive strength. And we make every effort to give them the tools, the challenges, and the training necessary to grow, develop, and succeed.

Through our general management training facility in Plano, Texas, we offer 40 different courses, 11 specifically targeting store management. Last year, thousands of associates and general managers attended these training sessions.

The JCPenney commitment to "developing the human factor in our business," codified in The Penney Idea in 1913, builds on the tradition established by James Cash Penney. Shortly after setting up his first store, he began a painstaking search for the future partners who would make his new enterprise thrive. As a result of that long-term initiative, JCPenney is an organization led by skilled, dedicated managers, many of whom began as merchandising managers in JCPenney stores. They have learned multiple facets of Company operations through their careers. And they remain committed to the principles that have been a constant in our 93-year history.

Our associates are the bedrock on which we have constructed our business. And we continue to draw from the strength of this foundation. Our diversity programs help us attract and retain the best and brightest people so that we maintain a high-performance, balanced work force. The energy and enterprise of these associates combined with the professionalism of our store managers have built an organization so well regarded that for millions of Americans we are not just a retailer – we are a landmark.

Every strategy and program devised at JCPenney begins – and ends – with our customers. Their needs drive our business, by the day, by the hour, by the minute. In our ongoing efforts to exceed their expectations for quality, selection, and service, we are entering the future of retailing ... and leading the way.

Financial Review

RESULTS OF OPERATIONS

($ in millions except per share data)	1994	1993	1992
Retail sales, per cent increase	7.4	5.4	11.2
Comparative store sales, per cent increase	6.8	5.3	9.7
Gross margin, per cent of retail sales			
FIFO	31.5	31.3	31.5
LIFO	31.5	31.5	31.7
Selling, general, and administrative expenses, per cent of retail sales	23.5	23.7	24.7
Pre-tax income of other businesses	$ 165	$ 149	$ 125
Effective income tax rate	37.8	39.3	38.3
Net income	$1,057	$ 940	$ 777
Per share	$ 4.05	$ 3.53	$ 2.95

NET INCOME. The Company recorded its third consecutive year of outstanding profits in 1994, with net income exceeding $1 billion for the first time in the Company's history. Net income in 1994 was $1,057 million, an increase of 12.5 per cent from $940 million in 1993. Fully diluted earnings per share improved 14.7 per cent to $4.05 per share from $3.53 per share in 1993. Increased sales volume in both stores and catalog was largely responsible for the improvement in each of the last three years. Contributing to increased profits were well managed selling, general, and administrative expenses. These expenses, as a per cent of retail sales, continued to decline in 1994 following significant reductions in 1993 and 1992.

Net income was $940 million in 1993, an increase of 20.9 per cent from $777 million in 1992. Fully diluted earnings per share improved to $3.53 per share from $2.95 per share in 1992. Net income was $777 million in 1992, an increase of 47.2 per cent from $528 million in 1991, excluding the impact in 1991 of nonrecurring items and the cumulative effect of an accounting change.

REVENUE (In millions)	1994	Per cent increase	1993	Per cent increase	1992
JCPenney stores	$ 15,023	6.9	$ 14,056	4.4	$ 13,460
Catalog	3,817	8.6	3,514	11.0	3,166
Drug stores	1,540	9.0	1,413	2.2	1,383
Total retail sales*	20,380	7.4	18,983	5.4	18,009
JCPenney Insurance	571	20.2	475	22.5	388
JCPenney National Bank	131	9.5	120	2.0	118
Total revenue	$ 21,082	7.7	$ 19,578	5.7	$ 18,515

1994 and 1993 comprised 52 weeks, and 1992 comprised 53 weeks.

**On a comparable 52-week basis, total retail sales increased 6.9 per cent in 1993; JCPenney stores sales increased 5.8 per cent; Catalog sales increased 12.8 per cent; and Drug store sales increased 4.2 per cent.*

The sales gains in JCPenney stores over the last three years were primarily the result of the Company's strategy of offering fashion and quality merchandise to its customers at competitive, affordable prices; the aggressive national advertising campaign which began in 1993; and the emphasis on developing its private brands. Catalog sales increases have been fueled by the growth in the number of new customers, gains from specialty catalogs, and improved synergy with the JCPenney stores' merchandise mix. Drug store sales increases were due primarily to the growth in store and institutional pharmacy sales.

GROSS MARGIN dollars, on a FIFO basis, increased $461 million or 7.7 per cent in 1994, reflecting the favorable sales performance of both stores and catalog and improved inventory management. As a per cent of retail sales, gross margin was 31.5 per cent in 1994, compared with 31.3 per cent in 1993 and 31.5 per cent in 1992. The level of the Company's LIFO index in 1994 was about the same as the level in 1993, resulting in a pre-tax LIFO charge of $1 million. Because of a decline in retail prices, there was deflation in the Company's index in 1993 and 1992, resulting in a pre-tax LIFO credit of $36 million and $32 million, respectively.

SG&A EXPENSES, as a per cent of retail sales, declined in 1994 to 23.5 per cent from 23.7 per cent in 1993 and 24.7 per cent in 1992, as a result of the Company's continuing efforts to control costs across all operating and support areas. SG&A expenses increased in 1994 from 1993's level, reflecting planned increases in store and catalog advertising.

NET INTEREST EXPENSE AND CREDIT OPERATIONS

(In millions)	1994	1993	1992
Interest expense, net	$ 270	$ 241	$ 258
Finance charge revenue	(624)	(523)	(509)
Credit costs			
Bad debt expense	177	95	122
Operating expenses (including third party credit costs)	270	260	261
Net interest expense and credit operations	$ 93	$ 73	$ 132

NET INTEREST EXPENSE AND CREDIT OPERATIONS increased 27.0 per cent in 1994 to $93 million. Finance charge revenue rose $101 million in 1994, while bad debt expense increased $82 million from the low levels last year, due to the higher level of customer receivables. Interest expense increased $29 million compared with 1993, primarily due to higher working capital requirements and the stock purchase programs. Interest expense was also impacted by higher short term interest rates in 1994, which were offset by lower average borrowing rates on the Company's long term debt as a result of the debt restructuring program in 1993 and 1992.

Net interest expense and credit operations declined in 1993, primarily as a result of lower bad debt and interest expense. Interest expense declined as a result of the Company's debt restructuring program in 1993 and 1992 initiated to take advantage of declining interest rates.

THE EFFECTIVE INCOME TAX RATE for 1994 was 37.8 per cent as compared with 39.3 per cent in 1993 and 38.3 per cent in 1992. The effective tax rate declined in 1994 due to greater utilization of the available targeted jobs tax credit. The 1993 rate included a one-time, non-cash charge of $14 million for the revaluation of deferred taxes, as required by Statement No. 109, *Accounting for Income Taxes*. Excluding the adjustment for deferred taxes, the 1993 effective income tax rate was 38.3 per cent.

PRE-TAX INCOME OF OTHER BUSINESSES

(In millions)	1994	1993	1992
JCPenney Insurance	$ 138	$ 120	$ 101
JCPenney National Bank	27	29	24
Total	$ 165	$ 149	$ 125

JCPENNEY INSURANCE, which markets life, accident and health, and credit insurance, continued its growth trend. During the past three years, JCPenney Insurance has expanded its market share through relationships with credit card issuers other than the Company, in both the United States and Canada to solicit their customers. Pre-tax income was $138 million in 1994, an increase of $18 million or 14.6 per cent over 1993. This growth resulted from favorable trends in both premiums and lower loss ratios. Premium income for 1994 was $508 million, an increase of $92 million or 22 per cent over 1993. The growth in premium income resulted from an increase of 1.7 million policies and certificates, 30 per cent more than in 1993. Renewal premiums increased as a result of greater sales over the past four years coupled with favorable policy retention. Pre-tax income was $120 million in 1993, an increase of 19.3 per cent over 1992, primarily due to increased premiums.

JCPENNEY NATIONAL BANK is a consumer bank, having no commercial lending activity. The Bank offers Visa and MasterCard credit cards to consumers, and generates funds primarily through certificates of deposit. At the end of the year, about 497 thousand credit cards were active. Pre-tax income was $27 million in 1994, down from $29 million in 1993, due to higher average interest rates on deposits. Pre-tax income improved in both 1993 and 1992, as a result of lower interest rates and a reduction in bad debt expense.

FINANCIAL CONDITION. The Company's goal is to continue to maintain a strong balance sheet. Outstanding earnings for the last three years and consistent cash flows have contributed to our strong financial condition. This provides the Company flexibility to capitalize on attractive opportunities for growth, increase its dividends, and to purchase shares of stock – all leading toward enhanced stockholder value.

Return on stockholders' equity is a key measure for evaluating the Company's performance. Our return on equity in 1994 was 19.7 per cent compared to 20.1 per cent in 1993 and 18.6 per cent in 1992. This performance placed the Company in the top quartile of our key retail competitors and the S&P 500.

The Company's credit ratings on its long term debt and commercial paper are among the highest in the retail industry. In October 1994, Moody's Investors Service upgraded the Company's long term debt rating to A1. Currently, the Company's long term debt is rated A+ by Standard & Poor's Corporation, A1 by Moody's Investors Service, and A+ by Fitch Investors Service, Inc. Our commercial paper is rated A1, P1 and F1, by Standard & Poor's, Moody's, and Fitch, respectively.

CASH FLOW. In 1994, the Company continued to generate sufficient cash flows internally to meet the major portion of its cash requirements to finance its operations. Cash flow generated internally in 1994, which consisted of net income plus depreciation and amortization and deferred taxes, was $1,414 million. At this level, cash flow covered substantially all of the Company's cash requirements for working capital, capital expenditures, and dividends. In addition, the Company used debt financing to complete its stock purchase program of 10 million shares at a total cost of $475 million.

During the next few years, the Company expects to generate internally sufficient cash flow to meet substantially all of its cash requirements for operations, capital expenditures, and dividends. Capital expenditures are expected to be approximately $600 million in each of the next three years.

DEBT TO CAPITAL. The Company's debt to capital ratio is based on an asset mix which is significantly influenced by customer receivables from the Company's proprietary credit card. Debt includes both on and off balance sheet financing. Over the last several years, the Company's debt capacity has increased as a result of its strong earnings and cash flows. This has permitted the Company to enhance stockholder value through a stock purchase program and dividend increases. At the end of 1994, after the completion of the first stock purchase program, the debt to capital ratio was 53.1 per cent. A second purchase program, for the purchase of up to an additional 10 million shares of the Company's common stock, was authorized and begun in January 1995.

DIVIDENDS. On March 8, 1995, the Board of Directors increased the quarterly common dividend to 48 cents per share, or an indicated annual rate of $1.92 per share. The regular quarterly dividend on the Company's outstanding common stock is payable on May 1, 1995, to stockholders of record on April 10, 1995. The quarterly common dividend was 42 cents per share in 1994, 36 cents per share in 1993, and 33 cents per share in 1992, or an indicated annual rate of $1.68 per share in 1994, $1.44 per share in 1993, and $1.32 per share in 1992.

IMPACT OF INFLATION AND CHANGING PRICES. The impact of inflation on the Company has not been significant in recent years due to the low levels of inflation. Inflation causes increases in the cost of doing business, including capital expenditures. By striving to control costs, the Company attempts to minimize the effects of inflation on its operations.

Independent Auditors' Report

To the Stockholders and Board of Directors
of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 28, 1995, January 29, 1994, and January 30, 1993, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 28, 1995, January 29, 1994, and January 30, 1993, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed on page 39, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, in 1993. Also, as discussed on page 29, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, in 1994.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
200 Crescent Court, Dallas, Texas 75201
February 23, 1995

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears to the left. This audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

Robert E. Northam
Executive Vice President and Chief Financial Officer

J.C. Penney Company, Inc. and Subsidiaries

FOR THE YEAR (In millions except per share data)	1994	1993	1992
Revenue			
Retail sales	$ 20,380	$ 18,983	$ 18,009
Other revenue	702	595	506
Total revenue	21,082	19,578	18,515
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	13,970	12,997	12,297
Selling, general, and administrative expenses	4,783	4,508	4,446
Costs and expenses of other businesses	537	446	381
Net interest expense and credit operations	93	73	132
Total costs and expenses	19,383	18,024	17,256
Income before income taxes, extraordinary charge, and cumulative effect of accounting change	1,699	1,554	1,259
Income taxes	642	610	482
Income before extraordinary charge and cumulative effect of accounting change	1,057	944	777
Extraordinary charge on debt redemption, net of income taxes of $35	—	(55)	—
Cumulative effect of accounting change for income taxes	—	51	—
Net income	$ 1,057	$ 940	$ 777
Earnings per common share			
Primary			
Income before extraordinary charge and cumulative effect of accounting change	$ 4.29	$ 3.79	$ 3.15
Extraordinary charge on debt redemption, net	—	(.23)	—
Cumulative effect of accounting change for income taxes	—	.21	—
Net income	$ 4.29	$ 3.77	$ 3.15
Fully diluted			
Income before extraordinary charge and cumulative effect of accounting change	$ 4.05	$ 3.55	$ 2.95
Extraordinary charge on debt redemption, net	—	(.21)	—
Cumulative effect of accounting change for income taxes	—	.19	—
Net income	$ 4.05	$ 3.53	$ 2.95

See Summary of Accounting Policies and Notes to Financial Statements on pages 29 through 39.

J.C. Penney Company, Inc. and Subsidiaries

ASSETS (In millions)	1994	1993	1992
Current assets			
Cash and short term investments of $207, $156, and $405	$ 261	$ 173	$ 426
Receivables, net	5,159	4,679	3,750
Merchandise inventories	3,876	3,545	3,258
Prepaid expenses	172	168	157
Total current assets	9,468	8,565	7,591
Properties, net	3,954	3,818	3,755
Investments, primarily insurance operations	1,359	1,182	991
Deferred insurance policy acquisition costs	482	426	372
Other assets	939	797	758
	$16,202	$14,788	$13,467

LIABILITIES AND STOCKHOLDERS' EQUITY (In millions except share data)	1994	1993	1992
Current liabilities			
Accounts payable and accrued expenses	$ 2,274	$ 2,139	$ 2,038
Short term debt	2,092	1,284	907
Current maturities of long term debt	—	348	—
Deferred taxes	115	112	64
Total current liabilities	4,481	3,883	3,009
Long term debt	3,335	2,929	3,171
Deferred taxes	1,039	1,013	1,012
Bank deposits	702	581	538
Insurance policy and claims reserves	568	540	462
Other liabilities	462	477	570
Stockholders' equity			
Preferred stock, without par value:			
Authorized, 25 million shares — issued, 1 million shares of Series B LESOP convertible preferred	630	648	666
Guaranteed LESOP obligation	(307)	(379)	(447)
Common stock, par value 50¢:			
Authorized, 1,250 million shares — issued, 227, 236, and 235 million shares	1,030	1,003	955
Reinvested earnings	4,262	4,093	3,531
Total stockholders' equity	5,615	5,365	4,705
	$16,202	$14,788	$13,467

See Summary of Accounting Policies and Notes to Financial Statements on pages 29 through 39.

CONSOLIDATED STATEMENTS OF REINVESTED EARNINGS

(In millions)	1994	1993	1992
Reinvested earnings at beginning of year	$ 4,093	$ 3,531	$ 3,156
Net income	1,057	940	777
Net unrealized change in debt and equity securities	(21)	1	(1)
Retirement of common stock	(435)	—	—
Common stock dividends declared	(392)	(339)	(309)
Preferred stock dividends declared, net of taxes	(40)	(40)	(33)
Two-for-one stock split	—	—	(59)
Reinvested earnings at end of year	$ 4,262	$ 4,093	$ 3,531

See Summary of Accounting Policies and Notes to Financial Statements on pages 29 through 39.

J.C. Penney Company, Inc. and Subsidiaries

FOR THE YEAR (In millions)	1994	1993	1992
Operating activities			
Net income	$ 1,057	$ 940	$ 777
Extraordinary charge, net of income taxes	—	55	—
Cumulative effect of accounting change for income taxes	—	(51)	—
Depreciation and amortization	323	316	310
Amortization of original issue discount	5	48	58
Deferred taxes	29	100	48
Change in cash from:			
Customer receivables	(326)	(352)	411
Securitized customer receivables amortized	—	(425)	(36)
Inventories, net of trade payables	(352)	(196)	(27)
Other assets and liabilities, net	2	(149)	33
	738	286	1,574
Investing activities			
Capital expenditures	(550)	(480)	(454)
Purchases of investment securities	(476)	(351)	(325)
Proceeds from sales of investment securities	287	215	195
Investment in asset-backed certificates	—	(12)	(419)
	(739)	(628)	(1,003)
Financing activities			
Increase in short term debt	808	377	436
Issuance of long term debt	500	1,015	280
Payments of long term debt	(350)	(875)	(677)
Premium on debt retirement	—	(76)	—
Common stock issued, net	45	37	39
Common stock purchased and retired	(475)	—	—
Preferred stock retired	(18)	(18)	(18)
Dividends paid, preferred and common	(421)	(371)	(342)
	89	89	(282)
Net increase (decrease) in cash and short term investments	88	(253)	289
Cash and short term investments at beginning of year	173	426	137
Cash and short term investments at end of year	$ 261	$ 173	$ 426
Supplemental cash flow information			
Interest paid	$ 301	$ 253	$ 265
Interest received	$ 55	$ 51	$ 71
Income taxes paid	$ 509	$ 486	$ 322

See Summary of Accounting Policies and Notes to Financial Statements on pages 29 through 39.

BASIS OF CONSOLIDATION. The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

DEFINITION OF FISCAL YEAR. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1994 ended January 28, 1995, 1993 ended January 29, 1994, and 1992 ended January 30, 1993. They comprised 52 weeks, 52 weeks, and 53 weeks, respectively. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

RETAIL SALES. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

EARNINGS PER COMMON SHARE. Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends. The number of shares used in the computation of fully diluted earnings per share was 258 million in 1994, 261 million in 1993, and 258 million in 1992.

CASH AND SHORT TERM INVESTMENTS. Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments.

MERCHANDISE INVENTORIES. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

DEPRECIATION. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, 10 per cent for selling fixtures and equipment, and 20 per cent for data center equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

DEFERRED CHARGES. Expenses associated with the opening of new stores are written off in the year of the store opening, except those of stores opened in January, which are written off in the following fiscal year. Deferred policy acquisition costs, principally marketing costs and commissions incurred by JCPenney Insurance to secure new insurance policies, are amortized over the expected premium-paying period of the related policies.

INVESTMENTS. Effective January 30, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. This statement requires that securities be classified as trading, held-to-maturity, or available-for-sale. The Company's investments, which consist of fixed income securities (principally bonds) held by JCPenney Insurance, marketable equity securities, and JCP Receivables, Inc. asset-backed certificates held by the Company, are classified as available-for-sale and are carried at fair value. Changes in unrealized gains and losses are recorded directly to stockholders' equity, net of applicable income taxes. Adoption of this statement had no material effect on the Company's investments, deferred taxes, and stockholders' equity, as reflected on the consolidated balance sheet at January 28, 1995, and had no impact on net income. In 1993 and 1992, fixed income securities and asset-backed certificates were carried at amortized cost on the consolidated balance sheets.

INSURANCE POLICY AND CLAIMS RESERVES. Liabilities established by JCPenney Insurance for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience. Liabilities for unpaid claims are charged to expense in the period that the claims are incurred.

ADVERTISING. Costs for newspaper, television, radio, and other media are expensed as incurred. Direct response advertising consists primarily of catalog preparation and printing costs, which are charged to expense over the period during which the benefits of the catalogs are expected, not to exceed six months.

DERIVATIVE FINANCIAL INSTRUMENTS. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, in 1994. This statement requires certain disclosures about derivative financial instruments, which are defined in the statement as futures, forward, swap, and option contracts, and other financial instruments with similar characteristics. The Company's current derivative positions consist of off-balance-sheet interest rate swaps. The accounting treatment for these interest rate swaps is to record the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized.

1. RECEIVABLES

(In millions)	1994	1993	1992
Customer receivables serviced	$ 4,751	$ 4,410	$ 4,068
Customer receivables sold	725	725	1,150
Customer receivables owned	4,026	3,685	2,918
Less allowance for doubtful accounts	74	59	69
Customer receivables, net	3,952	3,626	2,849
JCPenney National Bank receivables	729	587	538
Other receivables	478	466	363
Receivables, net	$ 5,159	$ 4,679	$ 3,750

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold during this period totaled $1,400 million. No gain or loss was recognized at the date of sale. $675 million of the certificates sold were amortized in 1993 and 1992. As of January 28, 1995, $725 million of the certificates were outstanding and the balance of the receivables in the trust was $1,768 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the outstanding certificates with stated rates of 8.95% and 9.625%, absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Reserve funds (fully funded at $91 million) are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 28, 1995. Additionally, the Company has made available to the trust irrevocable letters of credit of $87 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 28, 1995.

2. MERCHANDISE INVENTORIES

(In millions)	1994	1993	1992
Merchandise inventories, at lower of cost (FIFO) or market	$ 4,123	$ 3,791	$ 3,540
LIFO reserve	(247)	(246)	(282)
Merchandise inventories, at LIFO cost	$ 3,876	$ 3,545	$ 3,258

Substantially all of the Company's inventories are measured using the last-in, first-out (LIFO) method of inventory valuation. The Company applies internally developed indices to measure increases and decreases in its own retail prices.

3. PROPERTIES

(In millions)	1994	1993	1992
Land	$ 213	$ 213	$ 212
Buildings			
Owned	2,178	2,119	2,016
Capital leases	186	219	237
Fixtures and equipment	2,763	2,693	2,703
Leasehold improvements	611	575	544
	5,951	5,819	5,712
Less accumulated depreciation and amortization	1,997	2,001	1,957
Properties, net	$ 3,954	$3,818	$3,755

At January 28, 1995, the Company owned 251 retail stores, four catalog distribution centers, one store distribution center, its home office facility, and the insurance company corporate offices.

4. CAPITAL EXPENDITURES

Capital expenditures, primarily for new and relocated JCPenney stores and for modernizations and updates of existing stores, were as follows:

(In millions)	1994	1993	1992
JCPenney stores:			
New and relocated stores	$ 197	$ 162	$ 130
Modernizations and updates	136	130	76
Technology and other store improvements	78	44	32
	411	336	238
Catalog	21	21	11
Drug stores	59	40	27
Other*	53	62	218
Total capital expenditures	$ 544	$ 459	$ 494

*1992 includes $173 million for home office construction costs.

5. INVESTMENTS

Investments at year end 1994 were carried at fair value on the consolidated balance sheet and totaled $1,359 million. In 1993 and 1992, fixed income securities held by JCPenney Insurance and asset-backed certificates held by the Company were carried at amortized cost on the consolidated balance sheets. The amortized cost and fair values of investments were as follows:

INVESTMENTS (In millions)	1994 Amortized Cost	1994 Fair Value	1993 Amortized Cost	1993 Fair Value	1992 Amortized Cost	1992 Fair Value
Fixed income securities						
JCPenney Insurance						
U.S. Government obligations	$ 111	$ 107	$ 139	$ 153	$ 138	$ 142
Corporate securities	278	266	280	302	210	224
Mortgage-backed securities	216	199	158	164	148	159
Other investments	100	89	93	91	45	44
	705	661	670	710	541	569
JCPenney Company						
Asset-backed certificates	431	453	431	510	419	465
Other cash investments	149	148	1	1	2	1
	$1,285	$1,262	$1,102	$ 1,221	$ 962	$1,035
Equity securities						
JCPenney Insurance	$ 35	$ 37	$ 28	$ 33	$ 22	$ 29
JCPenney Company	58	60	43	47	—	—
	$ 93	$ 97	$ 71	$ 80	$ 22	$ 29

Unrealized capital gains and losses on fixed income and equity securities included in stockholders' equity at year end 1994 were as follows:

(In millions)	Cost or Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Net Unrealized Gains (Losses)
JCPenney Insurance fixed income securities	$ 705	$ 661	$ 6	$ (50)	$ (44)
Asset-backed certificates	431	453	22	0	22
Other cash investments	149	148	0	(1)	(1)
Equity securities	93	97	9	(5)	4
	$1,378	$1,359	$ 37	$ (56)	$ (19)
Deferred income taxes					7
Total					$ (12)

The scheduled maturities for fixed income securities at year end 1994 were as follows:

(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 16	$ 16
Due after one year through five years	339	331
Due after five years through ten years	519	539
Due after ten years	176	158
	1,050	1,044
Mortgage-backed securities	216	199
Other	19	19
Total	$1,285	$1,262

Realized gains and losses on investment transactions are determined on a first-in, first-out basis and are included in income on the trade date, and other revenue on the consolidated statements of income. These gains were $7 million in 1994, $14 million in 1993, and $12 million in 1992.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company selectively uses off-balance-sheet derivative financial instruments to manage market and interest rate risk, and reduce costs associated with financings. The Company uses derivatives for purposes other than trading activities, and derivatives which are leveraged or speculative by nature are not used. Current derivative positions consist of off-balance-sheet interest rate swaps which management believes present no significant financial risk to the Company.

CURRENT DERIVATIVE POSITIONS. In connection with the sale of $375 million of asset-backed certificates in 1990, the Company entered into two offsetting interest rate swaps. The swaps help to protect the investors of the certificates by reducing the possibility of an early amortization of the principal. Currently, the Company has no interest rate exposure from these swaps due to their offsetting nature.

The Company has in place interest rate swap contracts that were entered into in connection with the issuance of $250 million principal amount of 8.25 per cent sinking fund debentures in August 1992. These are four year agreements with a notional principal amount totaling $250 million. Under the swap agreements, the Company converted its fixed rate obligation to a floating rate obligation based on the six month London Interbank (LIBOR) rate. Since the inception of these interest rate swaps in 1992, interest expense has been reduced by approximately $10 million, and the interest cost of the 8.25 per cent fixed rate coupon has been effectively lowered to 6.25 per cent. The cumulative benefit of these swaps will be impacted by fluctuations in short term interest rates over the remaining 18 months of the swap contracts.

The counter parties to these contracts are high credit quality commercial banks. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent.

The impact of these interest rate swaps on both interest expense and the Company's average long term borrowing rate for 1994, 1993, and 1992 was immaterial.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimates of fair value are made at a specific point in time, based on relevant market prices and information about the financial instrument. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions. The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheet at each year end were:

	1994		1993		1992	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
JCPenney Insurance fixed income securities	$ 661	$ 661	$ 670	$ 710	$ 541	$ 569
Asset-backed certificates	453	453	431	510	419	465
Other cash investments	148	148	1	1	2	1
Equity securities	97	97	80	80	29	29
Receivables, net	5,159	5,159	4,679	4,679	3,750	3,750
Cash and short term investments	261	261	173	173	426	426
Financial liabilities						
Long term debt (excluding capital leases)*	$ 3,231	$ 3,124	$ 2,802	$ 3,021	$ 3,030	$ 3,295
Bank deposits	702	698	581	584	538	541
Short term debt	2,092	2,092	1,284	1,284	907	907
Current maturities of long term debt	—	—	348	348	—	—

**The fair value of the off-balance-sheet interest rate swaps at the end of 1994, 1993, and 1992 was $(8) million, $13 million, and $4 million, respectively.*

Fair values for fixed income securities, asset-backed certificates, and equity securities are based on quoted market prices. Fixed income securities and asset-backed certificates were carried at fair value on the consolidated balance sheet at year end 1994, and were carried at amortized cost in 1993 and 1992. The Company believes that the carrying value of existing customer and bank receivables is the best estimate of fair value because of their short average maturity and bad debt losses can be reasonably estimated and have been reserved. The carrying amount for the Company's cash and short term investments, short term debt, and current maturities of long term debt approximates fair value due to their short maturities. The fair value for long term debt, excluding capital leases, was determined based on the interest rate environment and the Company's credit rating. The fair value of bank deposits was based on the discounted value of contractual cash flows. The fair value of interest rate swaps is estimated based on quotes from brokers, and reflects the estimated amount that the Company would receive or pay to terminate the contracts at the reporting date.

CONCENTRATIONS OF CREDIT RISK. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of customer accounts receivable and investments. Concentrations of credit risk for the Company's customer accounts receivable are limited due to the large number of customers comprising the Company's credit card base and their dispersion across the country. With respect to investments held by JCPenney Insurance, the Company limits the credit risk by diversifying its investments by industry sector and by investing primarily in high grade fixed income securities. The result has been a conservative portfolio having an average rating of AA.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(In millions)	1994	1993	1992
Trade payables	$ 1,014	$ 1,034	$ 944
Accrued salaries, vacations, profit-sharing, and bonuses	336	311	308
Taxes, including income taxes	358	234	238
Workers' compensation and public liability insurance	123	126	116
Common dividend payable	96	85	77
Other	347	349	355
Total	$ 2,274	$ 2,139	$ 2,038

9. SHORT TERM DEBT

(In millions)	1994	1993	1992
Commercial paper	$ 2,074	$ 1,284	$ 887
Other	18	—	20
Total	$ 2,092	$ 1,284	$ 907
Average interest rate at year end	5.9%	3.2%	3.4%

COMMITTED BANK CREDIT FACILITIES available to the Company as of January 28, 1995, amounted to $2.5 billion. In 1994, the Company completed two syndicated revolving credit facility agreements. These facilities comprise a $1.5 billion, 364-day revolver and a $1.0 billion, five-year revolver with a group of domestic and international banks. These facilities support the Company's short term borrowing program and replaced the Company's existing credit lines. None of the borrowing facilities was in use as of January 28, 1995.

Also, the Company had $880 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. At January 28, 1995, $370 million of letters of credit issued by the Company were outstanding.

10. LONG TERM DEBT

(In millions)	1994	1993	1992
Original issue discount			
Zero coupon notes and 6% debentures, due 1994 and 2006, $550 at maturity, yields 14.6% to 14.9%, effective rates 13% to 13.2%	$ 104	$ 101	$ 401
Debentures and notes			
5.375% to 7.375%, due 1998 to 2023	1,500	1,000	—
8.25% to 8.375%, due 1996 to 2022	250	250	366
9% to 10%, due 1997 to 2021	1,000	1,000	1,750
Guaranteed LESOP notes, 8.17%, due 1998*	307	379	447
Present value of commitments under capital leases	104	127	141
Other	70	72	66
Long term debt	$3,335	$2,929	$3,171
Average long term debt outstanding	$2,754	$2,471	$2,683
Average interest rates	8.2%	9.9%	10.5%

For further discussion, see LESOP on page 37.

CHANGES IN LONG TERM DEBT (In millions)	1994	1993	1992
Increases			
5.375% to 9.75% notes, due 1998 to 2023	$ 500	$1,000	$ 250
Amortization of original issue discount	3	48	43
Other	—	16	30
	503	1,064	323
Decreases			
Transfers to current maturities of long term debt	—	348	—
8.375% to 12.75% debentures, bonds, and notes, due 1995 to 2021, retired in 1992 and 1993	—	872	423
Other, including LESOP amortization	97	86	83
	97	1,306	506
Net increase (decrease) in long term debt	$ 406	$ (242)	$ (183)

MATURITIES OF LONG TERM DEBT (In millions)	Long Term Debt	Capital Leases
1995	$ 2	$ 17
1996	6	18
1997	256	14
1998	587	14
1999	232	13
2000 to 2004	1,116	38
Thereafter	821	17
Total	$3,020	131
Less future interest and executory expenses		27
Present value		$ 104

11. PREFERRED STOCK

In 1988, a leveraged employee stock ownership plan (LESOP) was adopted (see page 37 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to 20 shares of common stock for each share of preferred stock. The conversion price is $30 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, are payable semi-annually on January 1 and July 1, and yield 7.9 per cent. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet, and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity. As of January 28, 1995, approximately 710 thousand shares had been allocated to participants' accounts since 1988, and approximately 467 thousand shares were committed-to-be released in the next four years.

THE PREFERRED DIVIDEND is payable semi-annually at an annual rate of $2.37 per common equivalent share. Preferred dividends declared were $50 million in 1994, $52 million in 1993, and $53 million in 1992; on an after tax basis, the dividends amounted to $31 million in 1994, $31 million in 1993, and $33 million in 1992.

In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for five cents per share totaling $12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/400 of a share of Series A junior participating preferred stock at a price of $140. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

12. COMMON STOCK

The quarterly common dividend was 42 cents per share in 1994, 36 cents per share in 1993, and 33 cents per share in 1992, or an indicated annual rate of $1.68 per share in 1994, $1.44 per share in 1993, and $1.32 per share in 1992. Common dividends declared were $392 million in 1994, $339 million in 1993, and $309 million in 1992.

On March 9, 1994, the Board of Directors approved the purchase of up to 10 million shares of the Company's common stock. This purchase program was completed in January 1995 at a cost of $475 million. All shares were retired and returned to the status of authorized but unissued shares of common stock. A second purchase program, for up to an additional 10 million shares of the Company's common stock, was approved by the Board of Directors on January 23, 1995, and was begun in late January 1995.

On March 10, 1993, the Board of Directors declared a two-for-one stock split in the form of a stock dividend, which was payable May 1, 1993, to stockholders of record on April 12, 1993.

At the Company's 1994 Annual Meeting, stockholders approved the increase in the authorized number of shares of common stock from 500 million to 1.25 billion shares.

There were approximately 53,000 stockholders of record at year end 1994. In addition, the Company's savings plans, including the LESOP, had 116,000 participants and held 38.7 million shares of the Company's common stock. The savings plans also held 1.05 million shares of preferred stock, convertible into 21.0 million shares of common stock. On a combined basis, these plans held approximately 24 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1994.

CHANGES IN OUTSTANDING COMMON STOCK	Shares (In thousands)			Paid-in Capital (In millions)		
	1994	1993	1992	**1994**	1993	1992
Balance at beginning of year	**236,086**	234,778	233,302	**$1,003**	$ 955	$ 857
Common stock issued	**1,455**	1,308	1,476	**70**	48	39
Common stock purchased and retired	**(10,100)**	—	—	**(43)**	—	—
Two-for-one stock split	**—**	—	—	**—**	—	59
Balance at end of year	**227,441**	236,086	234,778	**$1,030**	$1,003	$ 955

1993 EQUITY COMPENSATION PLAN AND 1993 NON-ASSOCIATE DIRECTORS' EQUITY PLAN. In May 1993, stockholders approved the 1993 Equity Compensation Plan (1993 Plan), which replaced the expiring 1989 Equity Compensation Plan. Under the 1993 Plan, 11.6 million shares of common stock were reserved for issuance upon the exercise of options and stock appreciation rights and for the payment of stock awards over the five-year term of the 1993 Plan. No discount options nor tax benefit rights may be issued under the 1993 Plan. Participants in the 1993 Plan are generally to be selected management associates of the Company and its subsidiaries and affiliates as determined by the committee administering the 1993 Plan. It is anticipated that approximately 2,000 associates will be eligible to participate. No awards may be made under the 1993 Plan after May 31, 1998. In May 1993, stockholders also approved the 1993 Non-Associate Directors' Equity Plan (Directors' Plan). Under the Directors' Plan, 90,000 shares of common stock were reserved for issuance upon the exercise of stock options and the payment of stock awards over the five-year term of the Directors' Plan. Each director who is presently not an active employee of the Company will automatically be granted annually an option to purchase 800 shares, in tandem with an award of 200 restricted shares of common stock. An initial grant/award in this same amount will also automatically be granted to each new Non-Associate Director upon his or her first being elected as a director. Such stock options will become exercisable six months from the date of grant, but shares acquired upon such exercise will not be transferable until a director terminates service.

STOCK OPTIONS	1994 Shares (In thousands)	1994 Weighted Average Option Price	1993 Shares (In thousands)	1993 Weighted Average Option Price	1992 Shares (In thousands)	1992 Weighted Average Option Price
Balance at beginning of year	8,235	$ 27.96	8,844	$ 27.42	9,490	$ 26.31
Granted	997	55.31	159	41.24	574	35.10
Exercised	(865)	26.51	(752)	24.49	(974)	21.02
Expired and cancelled	(20)	32.68	(16)	26.89	(246)	27.66
Balance at end of year	8,347	$31.36	8,235	$ 27.96	8,844	$ 27.42

At year end 1994, options covering 7.3 million shares were exercisable and 10.4 million shares were reserved for future grants.

13. FINANCE CHARGE REVENUE AND BAD DEBT EXPENSE, on customer accounts receivable owned by the Company, are included in the "Net interest expense and credit operations" line of the consolidated statements of income. Finance charge revenue was $624 million in 1994, $523 million in 1993, and $509 million in 1992. Bad debt expense was $177 million in 1994, $95 million in 1993, and $122 million in 1992.

14. INTEREST EXPENSE

(In millions)	1994	1993	1992
Short term debt	$ 92	$ 43	$ 43
Long term debt	225	246	281
Income on short term investments	(16)	(14)	(48)
Interest capitalized	(3)	(4)	(14)
Other, net*	(28)	(30)	(4)
Interest expense, net	$270	$ 241	$ 258

*Includes $34 million, $34 million and $28 million, respectively, of interest income from the Company's investment in asset-backed certificates.

15. RENT EXPENSE

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases was:

(In millions)	1994	1993	1992
Minimum rents	$ 235	$ 236	$ 244
Contingent rents based on sales	37	37	35
Total	$ 272	$ 273	$ 279

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $92 million in 1994, $90 million in 1993, and $107 million in 1992.

Future minimum lease payments for noncancelable real and personal property operating leases and subleases as of January 28, 1995 were:

(In millions)	Operating Leases
1995	$ 230
1996	194
1997	160
1998	139
1999	121
Thereafter	597
Total minimum lease payments	$1,441
Present value	$1,000
Weighted average interest rate	10%

The minimum lease payments are shown net of estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

16. RETIREMENT PLANS

(In millions)	1994	1993	1992
Pension			
Service cost	$ 57	$ 50	$ 46
Interest cost	134	123	122
Actual (return) loss on assets	(22)	(236)	(90)
Net amortization and deferral	(181)	59	(90)
Pension credit	(12)	(4)	(12)
Postretirement health care			
Service cost	3	3	6
Interest cost	25	24	27
Total	28	27	33
LESOP expense	53	50	49
Total retirement plans	$ 69	$ 73	$ 70

PENSION PLAN. JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

In 1994, the Company increased its discount rate to 8.75 per cent, reflecting the higher interest rate environment. The impact of this change reduced the Company's obligation at year end 1994. Pension plan assumptions are reviewed and modified as necessary on an annual basis. The Company made a $99 million contribution to the plan in 1994 and a $65 million contribution in 1993.

POSTRETIREMENT HEALTH CARE BENEFITS
The Company's retiree health care plan (Retiree Plan) covers medical and dental services and eligibility for benefits is based on age and years of service. The Retiree Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of employees, Company contributions toward the cost of retiree coverage will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Retiree Plan is funded on a pay-as-you-go basis by the Company and retiree contributions.

The Company uses the same discount rate for both its pension plan and Retiree Plan. The health care trend rate was lowered from 10 per cent to 9.5 per cent for 1995 with gradual reductions to 6 per cent by 2003 and beyond. The health care trend rate change represents a modification from previous assumptions because of favorable experience and a lower inflation environment. The changes in plan assumptions had no significant impact on the Company's obligation at year end 1994. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by $27 million and would result in $2 million additional expense for 1994.

LESOP. The Company's LESOP, adopted in 1988, is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed $700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase 28 million common shares of the Company in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the consolidated balance sheet. A like amount of "Guaranteed LESOP obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly.

The amount of LESOP expense recorded by the Company represents its cash contribution to the LESOP.

The following table sets forth the status of the Company's retirement plans:

RETIREMENT PLANS (In millions)	December 31 1994	1993	1992
Pension			
Present value of accumulated benefits			
Vested	$ 1,368	$ 1,367	$ 1,227
Non-vested	75	80	73
	$ 1,443	$ 1,447	$ 1,300
Present value of actuarial benefit obligation	$ (1,661)	$ (1,781)	$ (1,694)
Net assets at fair market value	1,825	1,800	1,585
Unrecognized transition asset, net of unrecognized losses	200	216	259
Net prepaid pension cost	$ 364	$ 235	$ 150
Postretirement health care benefits			
Accumulated benefit obligation			
Retirees	$ 217	$ 246	$ 205
Fully eligible active participants	43	51	82
Other active participants	40	41	43
	300	338	330
Unrecognized net gain (loss)	32	(10)	(7)
Net liability	$ 332	$ 328	$ 323
Key assumptions			
Rate of return on pension plan assets	9.5%	9.5%	9.5%
Discount rate	8.75%	7.25%	8.0%
Salary progression rate	4.0%	4.0%	4.0%

TOTAL ASSETS AND EQUITY (In millions)	Savings Plans December 31			Pension December 31		
	1994	1993	1992	1994	1993	1992
JCPenney preferred and common stock	$2,662	$3,030	$2,200	$ —	$ —	$ —
Equity securities	120	117	103	1,288	1,424	1,232
Fixed income investments	1,048	1,091	1,061	473	302	275
LESOP loan obligation, including accrued interest of $14, $17, and $20	(358)	(431)	(498)	—	—	—
Other assets, net	63	47	37	64	74	78
Net assets	$3,535	$3,854	$2,903	$1,825	$1,800	$1,585

CHANGES IN FAIR VALUE OF NET ASSETS (In millions)	Savings Plans December 31			Pension December 31		
	1994	1993	1992	1994	1993	1992
Net assets at beginning of year	$3,854	$2,903	$2,173	$1,800	$1,585	$1,561
Company contribution	53	50	49	99	65	—
Participants' contributions	203	184	169	—	—	—
Gains (losses)	(280)	984	794	22	236	93
LESOP interest expense	(30)	(35)	(40)	—	—	—
Benefits paid	(265)	(232)	(242)	(96)	(86)	(69)
Net assets at end of year	$3,535	$3,854	$2,903	$1,825	$1,800	$1,585

17. TAXES

The Company adopted Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*, effective January 31, 1993. This statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). Deferred taxes are determined by applying the provisions of enacted tax laws, and adjustments are required for changes in tax laws and rates. Deferred taxes reflected on the balance sheet were reduced by $51 million, and a cumulative adjustment was recorded to increase net income by the same amount, using current tax rates in effect at the beginning of fiscal 1993.

The Omnibus Budget Reconciliation Act of 1993, which was signed into law on August 10, 1993, included an increase in the statutory Federal income tax rate from 34 per cent to 35 per cent, retroactive to January 1, 1993. This change in the tax rate resulted in higher taxes on operating income in 1993 as well as a one-time, non-cash tax expense totaling $14 million for the revaluation of deferred taxes on the balance sheet as required by Statement No. 109.

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheet at January 28, 1995, were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax liabilities (assets) at January 28, 1995, were as follows:

TEMPORARY DIFFERENCES (In millions)	Deferred (Asset)	Deferred Liability	Net (Asset) Liability
Retirement plans	$(192)	$ 204	$ 12
Restructuring reserve	(18)	—	(18)
Workers' compensation/public liability	(100)	—	(100)
Leases	(31)	369	338
Accounts receivable	(29)	—	(29)
Inventories	(30)	124	94
Depreciation	—	757	757
Deferred policy acquisition costs	—	160	160
Other	(200)	140	(60)
Total	$(600)	$1,754	$1,154

No valuation allowances were considered necessary as of January 31, 1993, January 29, 1994, or January 28, 1995. The Company believes that the existing deductible temporary differences will be offset by future reversals of differences generating taxable income.

Deferred taxes, under APB Opinion No. 11 in 1992, consisted principally of accumulated depreciation and accounting for leases.

INCOME TAX EXPENSE (In millions)	1994	1993	1992
Current			
Federal	$ 521	$ 443	$ 372
State and local	92	67	62
	613	510	434
Deferred			
Federal	25	80	29
State and local	4	20	19
	29	100	48
Total	$ 642	$ 610	$ 482
Effective tax rate	37.8%	39.3%	38.3%

RECONCILIATION OF TAX RATES	Amounts (In millions)			Per cent of Pre-tax Income		
	1994	1993	1992	1994	1993	1992
Federal income tax at statutory rate	$ 594	$ 544	$ 428	35.0	35.0	34.0
State and local income taxes, less federal income tax benefit	65	58	53	3.8	3.7	4.2
Revaluation of deferred taxes	—	14	—	—	.9	—
Tax effect of dividends on allocated LESOP shares	(9)	(9)	—	(.5)	(.5)	—
Tax credits and other	(8)	3	1	(.5)	.2	.1
Total	$ 642	$ 610	$ 482	37.8	39.3	38.3

18. SEGMENT REPORTING

The Company operates predominantly in one industry segment consisting of selling merchandise and services to consumers through retail department stores that include catalog departments. Total assets for that industry segment at the end of the last three years were $14,103 million, $12,888 million, and $11,820 million, respectively.

(In millions except per share data)	First 1994	First 1993	First 1992	Second 1994	Second 1993	Second 1992	Third 1994	Third 1993	Third 1992	Fourth 1994	Fourth 1993	Fourth 1992
Retail sales	$4,350	3,964	3,793	4,242	3,963	3,789	5,149	4,735	4,342	6,639	6,321	6,085
Per cent increase	9.7	4.5	10.5	7.1	4.6	9.6	8.7	9.1	10.3	5.0	3.9	13.2
Total revenue	$4,519	4,106	3,918	4,412	4,106	3,912	5,328	4,888	4,472	6,823	6,478	6,213
Per cent increase	10.0	4.8	10.7	7.4	5.0	9.7	9.0	9.3	10.4	5.3	4.3	13.1
LIFO gross margin	$1,395	1,280	1,233	1,282	1,191	1,164	1,661	1,530	1,395	2,072	1,985	1,920
LIFO gross margin, per cent of retail sales	32.1	32.3	32.5	30.2	30.1	30.7	32.2	32.3	32.1	31.2	31.4	31.6
Selling, general, and administrative expenses, per cent of retail sales	25.1	25.9	26.7	25.5	25.8	27.1	23.4	24.2	25.0	21.2	20.8	21.7
Income before extraordinary charge and cumulative effect of accounting change	$ 223	172	136	132	112	80	274	221	186	428	439	375
Net income	$ 223	206	136	132	112	80	274	185	186	428	437	375
Income per share before extraordinary charge and cumulative effect of accounting change												
Primary	$ .88	.68	.54	.52	.43	.31	1.11	.88	.75	1.78	1.80	1.55
Fully diluted	$ .84	.65	.52	.51	.42	.31	1.04	.83	.70	1.66	1.65	1.42
Net income per common share												
Primary	$ .88	.82	.54	.52	.43	.31	1.11	.73	.75	1.78	1.79	1.55
Fully diluted	$ .84	.78	.52	.51	.42	.31	1.04	.69	.70	1.66	1.64	1.42
Dividends per common share	$ .42	.36	.33	.42	.36	.33	.42	.36	.33	.42	.36	.33
Common stock price range												
High	$ 59	45	34	54	49	36	54	52	38	52	56	40
Low	$ 50	36	27	47	41	32	47	39	33	39	49	36
Close	$ 54	43	33	49	45	35	51	52	37	41	52	36

GENERAL. The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of the Company's credit operations, capital structure, and cash flows.

CREDIT OPERATIONS. The following table presents the results of the Company's proprietary credit card operation, measuring on an all-inclusive basis the costs of granting, operating, and financing credit, net of finance charge revenue. This presentation does not include any profits derived from merchandise and services purchased by customers. Revenue, costs, and expenses contained in the table below relate to all customer accounts receivable generated and serviced by the Company, including those recorded as sold under asset securitization transactions. This presentation is designed to measure on an "economic basis" the total pre-tax cost of providing the JCPenney credit card to customers.

PRE-TAX COST OF JCPENNEY CREDIT CARD (In millions)	1994	1993	1992
Finance charge revenue			
On receivables owned	$ (624)	$ (523)	$ (509)
On receivables sold	(105)	(129)	(166)
Total	(729)	(652)	(675)
Bad debt expense	208	128	171
Operating expenses (including in-store costs)	268	265	270
Cost of capital	403	399	417
Total	879	792	858
Pre-tax cost of JCPenney credit	$ 150	$ 140	$ 183
Per cent of JCPenney credit sales	1.6%	1.6%	2.2%

The cost of capital shown above represents the cost of financing both Company-owned accounts receivable and securitized accounts receivable. The cost of the sold receivables is the actual interest paid to certificate holders. The owned accounts receivables are financed with both debt and equity capital. The debt component uses the total Company weighted average interest rate, while the equity component uses the Company's minimum return on equity objective of 16 per cent. On a combined basis, for both owned and sold receivables, the debt and equity components of the total capital requirements were 88 per cent debt and 12 per cent equity, which approximates the finance industry standard debt to equity ratio.

	1994		1993		1992	
CREDIT SALES (JCPenney stores and catalog)	Amounts (In billions)	Per cent of Eligible Sales	Amounts (In billions)	Per cent of Eligible Sales	Amounts (In billions)	Per cent of Eligible Sales
JCPenney credit card	$ 9.4	49.6	$ 8.7	49.6	$ 8.3	49.8
American Express, Discover, MasterCard, and Visa	3.4	17.9	2.8	16.1	2.3	13.8
Total	$ 12.8	67.5	$ 11.5	65.7	$10.6	63.6

KEY JCPENNEY CREDIT CARD INFORMATION (In millions)	1994	1993	1992
Number of accounts serviced with balances	17.6	17.2	17.5
Total customer receivables serviced	$ 4,751	$ 4,410	$ 4,068
Average customer receivables financed	$ 4,197	$ 3,767	$ 3,901
Average account balances (in dollars)	$ 269	$ 256	$ 231
Average account maturity (months)	4.2	4.0	4.1

CAPITAL STRUCTURE. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that we can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

The debt to capital ratio shown in the table below includes both debt recorded on the Company's consolidated balance sheet as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable (asset-backed certificates).

DEBT TO CAPITAL (In millions)	1994	1993	1992
Short term debt,			
net of cash investments	$ 1,738	$ 1,128	$ 502
Long term debt,			
including current maturities	3,335	3,277	3,171
	5,073	4,405	3,673
Off-balance-sheet debt			
Present value of operating leases	1,000	900	950
Securitization of accounts			
receivable, net	272	294	731
Total debt	$ 6,345	$ 5,599	$ 5,354
Consolidated equity	$ 5,615	$ 5,365	$ 4,705
Total capital	$11,960	$10,964	$10,059
Per cent of total debt to capital	53.1%	51.1%	53.2%

The Company builds its capital base according to the different needs and credit characteristics of its customer receivables and its other core retail assets. Customer receivables are highly diversified and predictable financial assets, very different from the core assets of a retailer, which include fixed assets and inventories for stores and catalog. Accordingly, the Company finances receivables with more leverage, much like a finance company. The standards for these assets are a debt ratio of approximately 88 per cent, and interest coverage of about 1.5 times. Core assets are financed with less leverage and more comparable to the leverage of non-retail industrial companies with strong credit ratings. The Company's capital structure at the end of fiscal year 1994 was:

(In millions)	Customer Receivables	Core Assets	Combined
Debt	$ 4,092	$2,253	$ 6,345
Equity	585	5,030	5,615
Total capital	$ 4,677	$7,283	$11,960
Debt to capital per cent	87.5%	30.9%	53.1%

The historical debt to capital per cent and fixed charge coverage for the prior three years, on a separate and combined basis, was:

DEBT TO CAPITAL PER CENT

	1994	1993	1992
Combined	53.1	51.1	53.2
Core assets	30.9	27.1	30.6
Customer receivables	87.5	87.5	87.5

FIXED CHARGE COVERAGE

	1994	1993	1992
Combined	4.5	4.3	3.4
Core assets	9.1	8.7	6.4
Customer receivables	1.5	1.5	1.4

FINANCING COSTS incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities were as follows:

(In millions)	1994	1993	1992
Interest expense, net	$270	$ 241	$ 258
Interest portion of LESOP debt payment	30	35	40
Off-balance-sheet financing costs			
Interest imputed on operating leases	95	97	96
Asset-backed certificates interest	67	87	105
Total	$462	$ 460	$ 499

CREDIT RATINGS. Over the years, the Company has maintained one of the highest credit ratings in the retail industry. The Company's objective is to maintain a strong investment grade rating on its senior long term debt, and A1/P1/F1 ratings on commercial paper. In October 1994, Moody's Investors Service upgraded the Company's long term debt rating to A1. Currently, the credit ratings for the Company are as follows:

	Long Term Debt	Commercial Paper
Standard & Poor's Corporation	A+	A1
Moody's Investors Service	A1	P1
Fitch Investors Service, Inc.	A+	F1

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA). Management believes that a key measure of cash flow generated is earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is not intended to represent cash flow or any other measure of performance in accordance with generally accepted accounting principles, but is included as a tool for analyzing the Company's financial condition. The following schedule shows the calculation of EBITDA and EBITDA margin as a per cent of total revenue.

(In millions)	1994	1993	1992
Income before income taxes,			
extraordinary charge, and cumulative			
effect of accounting change	$ 1,699	$1,554	$ 1,259
Financing costs	462	460	499
Depreciation and amortization,			
including operating leases	449	416	382
EBITDA	$ 2,610	$2,430	$ 2,140
Total revenue	$21,082	$19,578	$18,515
EBITDA per cent of total revenue	12.4%	12.4%	11.6%

J.C. Penney Company, Inc. and Subsidiaries

(In millions except per share data)	1994	1993[1]	1992	1991[2]	1990
Results for the year					
Total revenue	$ 21,082	19,578	18,515	16,648	16,736
Retail sales	$ 20,380	18,983	18,009	16,201	16,365
Per cent increase (decrease)	7.4	5.4	11.2	(1.0)	1.6
LIFO gross margin, per cent of retail sales	31.5	31.5	31.7	31.5	31.4
FIFO gross margin, per cent of retail sales	31.5	31.3	31.5	30.9	31.7
Selling, general, and administrative expenses, per cent of retail sales	23.5	23.7	24.7	25.6	26.2
Depreciation and amortization	$ 323	316	310	316	299
Income taxes	$ 642	610	482	204	255
Income before extraordinary charge and cumulative effect of accounting changes	$ 1,057	944	777	264	577
Net income	$ 1,057	940	777	80	577
Earnings per common share					
Primary					
Before extraordinary charge and cumulative effect of accounting changes	$ 4.29	3.79	3.15	.99	2.30
Net income	$ 4.29	3.77	3.15	.20	2.30
Fully diluted					
Before extraordinary charge and cumulative effect of accounting changes	$ 4.05	3.55	2.95	.99	2.16
Net income	$ 4.05	3.53	2.95	.20	2.16
Per common share					
Dividends	$ 1.68	1.44	1.32	1.32	1.32
Stockholders' equity	$ 23.45	21.53	19.17	17.33	18.38
Return on stockholders' equity	19.7	20.1	18.6	12.0	13.3
Financial position					
Receivables, net	$ 5,159	4,679	3,750	4,131	4,303
Merchandise inventories	$ 3,876	3,545	3,258	2,897	2,657
Properties, net	$ 3,954	3,818	3,755	3,633	3,532
Capital expenditures	$ 544	459	494	506	601
Total assets	$ 16,202	14,788	13,467	12,444	12,256
Total debt	$ 5,427	4,561	4,078	4,062	4,114
Stockholders' equity	$ 5,615	5,365	4,705	4,188	4,394
Number of common shares outstanding at year end	227	236	235	233	234
Weighted average common shares					
Primary	237	239	236	234	236
Fully diluted	258	261	258	234	260
Number of employees at year end (In thousands)	202	193	192	185	196

[1] Excluding the impact of the tax rate increase on deferred taxes, after tax income was $958 million, or $3.60 per share, on a fully diluted basis.

[2] Excluding the effect of nonrecurring items and the cumulative effect of an accounting change, after tax income was $528 million, or $2.00 per share, on a fully diluted basis.

J.C. Penney Company, Inc. and Subsidiaries

	1994	1993	1992	1991	1990
JCPenney stores					
Number of stores					
Beginning of year	**1,246**	1,266	1,283	1,312	1,328
Openings	**29**	24	33	38	46
Closings	**(42)**	(44)	(50)	(67)	(62)
End of year	**1,233**	1,246	1,266	1,283	1,312
Gross selling space (In million sq. ft.)	**113.0**	113.9	114.4	114.5	114.4
Sales including catalog desks (In millions)	**$ 18,048**	16,846	15,698	14,277	14,616
Sales per gross square foot[1]	**$ 159**	146	137	125	127
Catalog					
Number of catalog units					
JCPenney stores	**1,233**	1,246	1,266	1,283	1,312
Freestanding sales centers and merchants	**552**	543	640	697	626
Drug stores	**94**	101	128	134	136
Other, principally outlet stores	**16**	14	14	16	16
Total	**1,895**	1,904	2,048	2,130	2,090
Number of distribution centers	**6**	6	6	6	6
Distribution space (In million sq. ft.)	**11.4**	11.4	11.4	11.4	11.4
Sales (In millions)	**$ 3,817**	3,514	3,166	3,002	3,220
Drug stores					
Number of stores					
Beginning of year	**506**	548	530	487	471
Openings	**46**	35	30	46	22
Closings	**(26)**	(77)	(12)	(3)	(6)
End of year	**526**	506	548	530	487
Gross selling space (In million sq. ft.)	**4.5**	4.6	5.2	5.0	4.8
Sales (In millions)	**$ 1,540**	1,413	1,383	1,192	1,097
Sales per gross square foot[1]	**$ 243**	235	211	201	198
JCPenney Insurance (In millions)					
Revenue	**$ 571**	475	388	328	255
Policies and certificates in force	**7.5**	5.8	4.6	4.3	4.1
Amount of life insurance in force	**$ 8,780**	7,627	6,552	5,419	5,268
Total assets	**$ 1,360**	1,246	1,033	857	764

[1] *1992 is presented on a 52 week basis.*

Through several established programs, the Company continued its commitment to enhance the general environment of our communities.

COMMUNITY RELATIONS. During 1994, the Company's charitable contributions totaled $24.8 million nationwide, most of which was contributed by JCPenney stores and other units to community organizations. Priority was given to programs that address our target issues of pre-kindergarten through grade twelve education; encouraging and promoting volunteerism; and supporting the United Way. In addition to financial support for education, the Company's Committee on Involvement in Education produced a brochure for educators entitled "Job Skills Needed by JCPenney Associates." Major commitments in our support of volunteerism included the expansion of our Golden Rule Award Program to 206 markets. These awards publicly honor community volunteers and support their work with contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney associates for outstanding volunteer activities. The two programs contributed approximately $1.8 million to local charitable organizations. The 1994 United Way campaign raised a Company record $15 million in JCPenney associate and unit pledges for nearly 1,000 United Way organizations.

In support of wellness and physical fitness for women and girls, JCPenney became the national presenting sponsor of the Susan G. Komen Breast Cancer Foundation Race for the Cure, with associates supporting 46 local races as volunteers, runners or walkers. Raising more than $420,000 for the prevention and cure of birth defects, associates actively supported the March of Dimes WalkAmerica in 94 markets. Additionally, the JCPenney/LPGA Skins Tournament raised over $350,000 for Easter Seals of North Texas.

In November 1994, JCPenney was awarded the 1995 Catalyst Award in recognition of its outstanding initiatives for women. The Company is the first retailer to be so recognized of the 29 companies who have received the award over the last 20 years. The third Juanita Kreps Award Honoring the Spirit of the American Woman was awarded to Marian Wright Edelman for her work on behalf of children, with cash contributions made to two educational organizations in her honor. JCPenney actively supported women's conferences and expos in over 25 U.S. cities, educating and communicating issues such as financial and career planning, fashion, health, fitness and self-esteem. Included in these conference programs is the Spirit of the American Woman Award given to an outstanding local woman for her contribution to her community, her involvement with her family or her achievements in her career. During 1994, the Company participated in over 30 special events and conferences through our Multicultural Affairs department, including our Sixth Annual Hispanic Designers Model Search.

MINORITY AND WOMEN-OWNED BUSINESSES. In 1972, JCPenney established its Minority Supplier Development Program and became a corporate member of the National Minority Supplier Development Council (NMSDC). NMSDC is a nationwide link between corporations and minority-owned businesses and contributes significantly to our ongoing efforts towards the development of mutually beneficial business relationships with minority-owned businesses. Through continued participation in national and local conferences and trade fairs, purchases of merchandise and services from minority and women-owned businesses for 1994 increased to $416 million and $153 million, respectively. Additionally, the Company had relationships with 32 minority-owned banks, including two women-owned banks. The Company continued its $1 million investment in the NMSDC's Business Consortium Fund, which makes loans to minority businesses. Furthermore, the Company's legal department participates in the American Bar Association's Minority Counsel Demonstration Program.

Annually, JCPenney's Minority and Women-Owned Supplier Development Awards Program honors associates and suppliers. Associates are honored for their continuous efforts in developing minority supplier relationships. Suppliers are honored for outstanding performance demonstrated in supplying merchandise and services to the Company.

ENVIRONMENTAL AFFAIRS. JCPenney is committed to doing business in an environmentally responsible manner. At the center of this commitment stands a determination to make environmental considerations a part of corporate decision making and policy. Leadership for this effort comes from an Environmental Affairs Committee composed of senior officers. Under their direction, the Company continuously seeks to assure that its operations, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and our communities. The Committee has set forth a Statement of Principles on the Environment reflecting the Company's commitment to these goals.

The Company also has an Environmental Issues Task Force consisting of various subcommittees that are studying specific matters such as merchandise packaging, recycling, and trash disposal. The Company currently uses recycled-content paperboard for all apparel, jewelry, and gift boxes and continues to explore sources of recycled-content paper for its advertising supplements, catalogs, and other printed material. Stores recycle most of the corrugated cardboard boxes in which merchandise shipments are received.

Seventy-seven per cent of waste from our Catalog Distribution Centers is recycled, including paper, glass, aluminum, and batteries. Office paper and plastic are recycled at the Company's Home Office, as well as in a number of other facilities. Collection of catalogs for recycling is being tested in nine markets and in the Company's Home Office. In addition, an Environmental Packaging Excellence Award encourages environmental consciousness by recognizing associates who develop packaging solutions that meet Company environmental criteria.

In 1994, the Company was presented with an award from Keep Dallas Beautiful, Inc., the Dallas affiliate of Keep America Beautiful, in recognition of the Company's recycling program. Also in 1994, the Company received a letter from the Environmental Protection Agency (EPA) applauding the Company's efforts for working to support the Green Lights Program, a program initiated by the EPA to encourage the use of energy-efficient lighting and lighting controls. The EPA selected one of the Company's stores in Atlanta, Georgia as an Energy Store Showcase Building to demonstrate the profitability and environmental benefits of a wide variety of energy efficient technologies.

Copies of A Special Report Update on the Company's Environmental Responsibility, including the Company's Statement of Environmental Principles, may be obtained as indicated on page 48 of this Annual Report.

EQUAL EMPLOYMENT OPPORTUNITY. The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J.C. Penney Company, Inc. and wholly-owned subsidiaries, excluding associates in Puerto Rico, Canada, Chile, and Mexico. The information provided delineates minority and female representation in major job categories.

	Total Employed		Per cent Female		Per cent Minority	
EMPLOYMENT INFORMATION	1994	1990	1994	1990	1994	1990
Officials, managers, and professionals	19,020	19,739	48.3	44.4	12.7	10.7
Management trainees	748	1,255	66.0	63.9	40.0	23.3
Sales workers	105,384	106,807	87.9	88.0	20.7	16.9
Office and clerical workers	34,134	24,035	88.5	90.2	19.6	16.0
Technicians, craft workers, operatives, laborers, and service workers	41,244	41,937	67.9	72.0	26.2	21.4
Total	200,530	193,773	79.8	80.2	20.9	17.2

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

INDEPENDENT BOARD OF DIRECTORS. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

INDEPENDENT COMMITTEES. The principal standing committees of the Board of Directors are composed entirely of directors who are not employees of the Company. These committees include the Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

EXECUTIVE COMPENSATION. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1995 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

CONFIDENTIAL VOTING. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations which identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, or employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

BOARD OF DIRECTORS

M. Anthony Burns[1,2,5]
Chairman, President and Chief Executive Officer, Ryder System, Inc.

Colby H. Chandler[3,4]
Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

William R. Howell
Chairman of the Board

Vernon E. Jordan, Jr.[2,3,4]
Senior Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

George Nigh[2,3,4]
President, University of Central Oklahoma and Formerly Governor of Oklahoma

James E. Oesterreicher
Vice Chairman of the Board and Chief Executive Officer

Jane C. Pfeiffer[3,4,5]
Independent Management Consultant

Charles S. Sanford, Jr.[1,3]
Chairman, Bankers Trust New York Corporation and Bankers Trust Company

W. Barger Tygart
President and Chief Operating Officer

Joseph D. Williams[1,2,5]
Retired Chairman and Chief Executive Officer, Warner-Lambert Company

CHAIRMAN OF THE BOARD

William R. Howell
Chairman of the Board

EXECUTIVE COMMITTEE

James E. Oesterreicher
Vice Chairman of the Board and Chief Executive Officer

W. Barger Tygart
President and Chief Operating Officer

Gale Duff-Bloom
Senior Executive Vice President
Director of Personnel and Company Communications

Charles R. Lotter
Executive Vice President
Secretary and General Counsel

Robert E. Northam
Executive Vice President
Chief Financial Officer

Terry S. Prindiville
Executive Vice President
Director of Support Services

JCPENNEY STORES AND CATALOG

John T. Cody, Jr.
President of JCPenney Stores

Thomas D. Hutchens
President of Merchandising Worldwide

Thomas B. Ashmore
President, Northeastern Region

Marilee J. Cumming
President, Home and Leisure Division

Gary L. Davis
President, Northwestern Region

James L. Hailey
President, Women's Division

Edward T. Howard
President, Southwestern Region

William E. McCarthy
President of Catalog and Distribution

J. Raymond Pierce
President, Men's Division

R. H. Seaman
President, Southeastern Region

N. Tice Siegel, Jr.
President, Children's and Family Shoes Division

Anton C. Haake
Vice President
Director of Quality Assurance

Donald D. Hoggatt
Vice President
Director of Marketing and Visual Communications

George K. Kapplinger
Vice President
Director of JCPenney Store Operations, Latin America

Randy S. Ronning
Vice President
Director of Specialty Businesses

Kenneth T. Russo
Vice President
Director of International Sourcing

Michael Todres
Vice President
Director of Distribution and Non-Resale Purchasing

J. Thomas Arthur
Divisional Vice President
Director of Merchandising, Catalog Division

Marshall Beere
Divisional Vice President
Director of Merchandising, Women's Division

Andrew Cumming
Divisional Vice President
Director of Merchandising, Children's and Family Shoes Division

Julius L. Debbs
Divisional Vice President
Director of Merchandising, Home and Leisure Division

Kay E. Egan
Divisional Vice President
Director of Merchandise Development, Home and Leisure Division

Peter G. Fenlon
Divisional Vice President
Director of Operations, Catalog Division

Jack Fleischer
Divisional Vice President
Director of Merchandising, Men's Division

David E. Fulcomer
Divisional Vice President
Director of Merchandising, Men's Division

Ralph W. LaRovere
Divisional Vice President
Director of Merchandising, Home and Leisure Division

Louis Lynn, Jr.
Divisional Vice President
Director of the Shoe Group, Children's and Family Shoes Division

Peter M. McGrath
Divisional Vice President
Director of Merchandise Development, Children's and Family Shoes Division

William E. Nolta
Divisional Vice President
Director of Catalog Advertising and Publications

Joseph P. Sapienza
Divisional Vice President
Director of Merchandise Development, Men's Division

Lucinda C. Sapienza
Divisional Vice President
Director of Merchandising, Women's Division

Donald F. Scaccia
Divisional Vice President
Director of Merchandise Development, Women's Division

Gerald L. Shores
Divisional Vice President
Director of Merchandising, Women's Division

CORPORATE

David V. Evans
Senior Vice President
Director of Planning and Information Systems

Ted L. Spurlock
Senior Vice President
Director of Financial Services and Government Relations

William J. Alcorn
Vice President
Director of Credit

Thomas A. Clerkin
Vice President
Director of Planning and Research

John E. Fesperman
Vice President
Director of Insurance

Leo A. Gispanski
Vice President
Treasurer

Jay F. Hundley
Vice President
Director of Personnel

Howard J. Johnson
Vice President
Director of Auditing

Russell H. Longyear
Vice President
Director of Communications

N. Michael Lowenkron
Vice President
Director of Real Estate

Alfred F. Lynch
Vice President
Director of International Development

Donald A. McKay
Vice President
Controller

Richard P. O'Leary
Vice President
Director of Construction Services

James C. Schwaninger
Vice President
Director of Government Relations

M. Christopher Sears
Vice President
Executive Assistant to the Chairman

Delmer R. Threadgill
Vice President
Director of Taxes

Wynfred C. Watkins
Vice President
Director of Investor Relations

Bruce A. Hill
Divisional Vice President
Assistant Director of Personnel

Donald M. Rose
Divisional Vice President
Personnel Relations Director

Mary A. Rostad
Divisional Vice President
Assistant Director of Personnel

ASSISTANT CONTROLLERS

Nancy F. Brigham
William J. Longtine
Michael D. Reardon

ASSISTANT SECRETARIES

Frank J. Bonet
Thomas M. Comerford
Alfred O. Goellner
Margaret R. Johnson
Eugene P. McGreal
Jeffrey J. Vawrinek

ASSISTANT TREASURERS

Robert B. Cavanaugh
Stephen F. Walsh

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors; reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which administers certain of the Company's incentive and equity compensation plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans. It is also the committee which administers certain of the Company's retirement and welfare plans.

All of the committees described above are composed entirely of outside directors.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 a.m. local time, Friday, May 19, at the El San Juan Hotel, 6063 Isle Verde Road, San Juan, Puerto Rico. You are cordially invited to attend. The annual report and proxy statement, including a request for proxies, were mailed to stockholders on or about April 7, 1995.

Stockholder Relations

Transfer Agent/Registrar

Inquiries about your stockholder records should be forwarded to:

Chemical Bank
JCPenney Shareholder Services
P.O. Box 3068
New York, New York 10116-3068
1-800-842-9470

Dividend Reinvestment/Direct Deposit

Registered stockholders may acquire additional shares of JCPenney common stock through its Master Dividend Reinvestment Plan. Safekeeping of shares, reinvestment of dividends, and additional cash contributions can be utilized through this plan.

Registered stockholders may also elect to have their quarterly dividends electronically deposited into a checking or savings account on dividend payment date.

For more information regarding these services, contact Chemical Bank at the above location.

Exchange Listings

The New York Stock Exchange
(Ticker symbol-JCP)

Brussels and Antwerp
Stock Exchanges

Financial/Other Information

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission
- The Company's Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- JCPenney Quarterly News, a financial update
- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- JCPenney Community Partners, the Company's social responsibility report
- JCPenney's Special Report Update on Its Environmental Responsibility
- JCPenney Funding Corporation's Annual Report

Requests for the above should be addressed to:

Investor Relations Department
J.C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-8105
(214) 431-1488

Sales Release Dates for Fiscal 1995

Release Date	Sales Period
March 2	February 1995
April 6	March 1995
May 4	April 1995
June 1	May 1995
July 6	June 1995
August 3	July 1995
August 31	August 1995
October 5	September 1995
November 2	October 1995
November 30	November 1995
January 4	December 1995
February 1	January 1996

Earnings Release Dates for Fiscal 1995

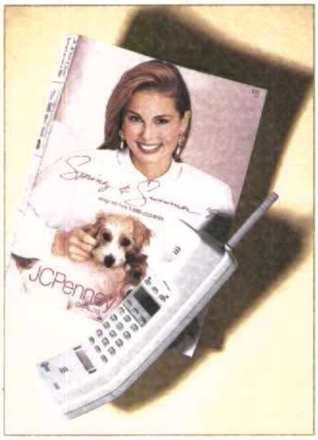
Release Date	Quarter
May 16	1st Quarter
August 15	2nd Quarter
November 14	3rd Quarter
February 22 (tentative)	4th Quarter

Security Analyst & Investment Professional Contact

W.C. Watkins	(214) 431-1972
Eli Akresh	(214) 431-2207
Duncan Muir	(214) 431-1329

J.C. Penney Company, Inc.

P.O. Box 10001
Dallas, Texas 75301



1994 ANNUAL REPORT

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